IPF
INSTITUTE OF PUBLIC FINANCE

ANNUAL NATIONAL SHADOW BUDGET 2024/25

“Budgeting in an Era of Fiscal Consolidation: Protecting Key Priorities”

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Preface

Welcome to the fourth edition of the Annual National Shadow Budget by the Institute of Public Finance (IPF). As we navigate through Kenya's challenging economic landscape, marked by fiscal pressures and a slowdown in economic growth, the importance of informed budgeting and resource allocation becomes increasingly paramount. In this edition, we delve into the theme "Budgeting in an Era of Fiscal Consolidation: Protecting Key Priorities." The backdrop of fiscal consolidation, amidst the ambitious Bottom-Up Transformation Agenda and the strategic allocation of resources outlined in the 2024 Budget Policy Statement, sets the stage for our analysis. Drawing from insights gleaned from financial and non-financial performance over FY2022/23 and the transition between FY2023/24-2024/25, this edition identifies critical gaps and challenges. These include discrepancies between sector reports and budget allocations, low absorption of development budgets, and unresolved pending bills. Moreover, we examine strategies to address overlaps, redundancies, and function duplications, which could potentially unlock resources for priority expenditure. A notable addition to this edition is a dedicated chapter on Fiscal Decentralization. This chapter sheds light on the fiscal performance of County Governments, aiming to inform strategies for strengthening devolution. Our vision for the Annual National Shadow Budget remains steadfast—to generate evidence that informs public discourse on public finance management. By offering a comprehensive set of questions for parliamentary and civil society oversight, we aim to catalyze transparent, accountable, and equitable budgeting practices.

As with all IPF publications, the views expressed herein reflect those of the institute, independent of our research funders.

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Executive Summary

The Annual National Shadow Budget FY 2024/25 by Institute of Public Finance, themed *"Budgeting in an Era of Fiscal Consolidation: Protecting Key Priorities,"* has a keen focus on the ambitious Bottom-Up Transformation Agenda and how the government commits to protect critical programmes through strategic resource allocation even as fiscal consolidation has proved inevitable. This report projects gaps such as discrepancies between sector reports and budget allocations, low development budget absorption, pending bills with no allocations, overlaps, redundancies, and duplication of functions. Addressing these gaps will promote efficiency and free up resources that can be reallocated to finance key priorities at a time when the government is walking the fiscal consolidation path. Moreover, it raises critical questions that Parliament, advocates and civil society should seek answers to as they undertake their oversight functions.

The Shadow Budget comes amid a projected slowdown in global economic growth from 3 percent in 2023 to 2.9 percent in 2024, heightened debt servicing payment consuming over 60 percent of tax revenue, external risks especially those stemming from Russia-Ukraine and the Middle East conflicts, and unemployment concerns mostly among youth and the expectation for the government to resolve financing and service delivery inadequacy in the health sector , and implement effective poverty and cost of living reducing measures.

In FY 2024/25, the national budget is set to increase by 4 percent with the largest allocation going to Consolidated Fund Service (CFS) – with debt service being the key CFS driver. The largest share of this increment goes to CFS whose allocation jumps by 10 percent signaling prioritization for debt service. At a time when government is forced to effect austerity measures, social spending needs to be prioritized as a cushion for the vulnerable. However, the government has resorted to budget cuts for the General Economic Commercial Affairs (GECA) sector by 22 percent, the Agriculture, Rural, and Urban Development (ARUD) sector by 10 percent, and the Education sector by 3 percent. Surprisingly, there is every indication that priority has shifted to Public Administration and International Relations (PAIR) and National Security as they receive 10 percent budget increase at the expense of social protection while the budget for the Executive Office of the President is increasing by 35 percent.

Some of the key propositions in the 2024 Annual National Shadow Budget include the need to safeguard primary and secondary education programmes as they are likely to be most affected by fiscal consolidation since they do not have a way of generating extra revenue compared to institutions of higher learning that can leverage on research and innovation to generate additional resources. Also, there is a need to fast track the merging of governance and standards programmes with the quality and assurance standards to free up resources that can be used to increase funding for primary and secondary education.

Further, allocation for the ARUD sector need to be retained at the initial budget allocation of Ksh 60 billion of the Crop Development sub-sector in the FY 2023/24 as opposed to Ksh. 12 billion reduction in the 2024 BPS. This to ringfence delivery of priority programs such as fertilizer subsidy. Equally, the subsidy program should be integrated with the national irrigation program to create synergy in outcomes.

To achieve efficiency and realize value for money, increased scrutiny is required at the appraisal stage and in the setting of key performance indicators. A case in point is the Galana Kulalu Irrigation development project that has utilized 90 percent of the estimated project cost, report 97 percent completion of civil works, but only gives land acreage to be irrigated with no target for number of bags to be harvested. The country cannot afford to continue pumping resources into projects that fail to demonstrate viability.

In the Health sector, leasing medical equipment without assessing county readiness reflects a disconnect between planning and implementation, risking ineffective utilization of resources. In FY 2024/25, there is no provision for leasing of medical equipment (that translates to an estimated Ksh 7 billion annually) through additional allocation from the National Government's share of revenue like has been in past. As it happens, the Ministry of Health is conducting a review of the project to pave way for the signing of Intergovernmental Participation Agreements between the national and county governments, to operationalize the project. The key question is who will bear the Ksh 7 billion annual payment between the MoH and the county governments, given there was no provision for this cost in the BPS 2024?

The Curative and Reproductive Maternal Neonatal Child & Adolescent Health (RMNCAH) program under State Department for Medical Services (SDMS) significantly overlaps with the Preventive and Promotive Health Service program under State Department for Public Health and Professional Standards (SDPHPS). Both programs include subprograms like Communicable Disease Control, and many RMNCAH activities inherently fall under preventive care.

Moreover, this Shadow Budget illuminates fiscal performance of county governments and gives recommendations on mobilization of own source revenue and transfer of functions with a goal to inform strengthen devolution. We emphasize the need to expedite costing of functions, clear stipulation, and full devolvement of contentious functions, mostly in agriculture and water and sanitation. According to the Inter-Governmental Relation Technical Committee (IGRTC), Ministries Departments and Agencies (MDAs) are still performing county functions with an estimated cost of Ksh 272 billion.

Moving forward, Kenya's fiscal approach should be supported by a robust institutional framework and coordination among MDAs to reinforce public finance management principles, fiscal discipline, and efficiency to enhance service delivery.

Abbreviations and acronyms

AIA	Appropriation In Aid
ANSB	Annual National Shadow Budget
ARUD	Agriculture, Rural & Urban Development
ASALs	Arid and Semi-Arid Lands
AU	African Union
BETA	Bottom-Up Economic Transformation Agenda
BPS	Budget Policy Statement
CBC	Competency-Based Curriculum
CBIRR	County Budget Implementation Review Reports
CCCF	County Climate Change Fund
CHPs	Community Health Promoters
CRA	Commission on Revenue Allocation
Dev	Development
EACC	Ethics and Anti-Corruption Commission
ECD	Early Childhood Education
EII	Energy, Infrastructure, and ICT
EPZA	Export Processing Zones Authority
FAO	Food and Agriculture Organization
FIF	Facility Improvement Fund
FLLoCA	Financing Locally Led Climate Action
FLTF	Fish Levy Trust Fund
FY	Financial Year
GAPSS	General Administration Planning and Support Services
GECA	General Economic and Commercial Affairs
GJLO	Governance Justice Law and Order
HHs	Households
ICT	Information Communication Technology
IEBC	Independent Electoral and Boundaries Commission
IGFRD	Intergovernmental and Fiscal Relations Department
KeFS	Kenya Fisheries Service
KFMA	Fisheries Marketing Authority
KIRDI	Kenya Industrial Research and Development
KMTC	Kenya Medical Technical College
KPIs	Key Performance Indicators
KRA	Kenya Revenue Authority
MATTs	Multi-Agency Technical Task Teams
MDAs	Ministries Department and Agencies
MOE	Ministry of Education
MSMED	Micro, Small, and Medium Enterprises Department
MSMEs	Micro, Small and Medium Enterprises
MT	Metric Tonnes
MTEF	Medium Term Expenditure Frameworks
MTRS	Medium-Term Revenue Strategy
NCPB	National Cereals and Produce Boards

NFM III	New Funding Model
NG-CDF	National Government Constituencies Development Fund
OCOB	Office of the Controller of Budget
ODPP	Office of the Director of Public Prosecutions
OSR	Own Source Revenue
PAIR	Public Administration and International Relations
PBB	Program Based Budget
PFM	Public Finance Management
PHC	Primary Health Care
PWDs	People With Disabilities
QAS	Quality Assurance and Standards
Rec	Recurrent
RMNCAH	Reproductive, Maternal, Newborn, Child, and Adolescent Health
RSTI	Research, Science, Technology, and Innovation
SAGAs	Semi-Autonomous Government Agencies
SDGs	Sustainable Development Goals
SDMS	State Department of Medical Services
SDPHPS	State Department for Public Health and Professional Standards
SHI	Social Health Insurance
SMEs	Small and Medium Enterprises
SPCR	Social Protection, Culture and Recreation
SWG	Sector Working Group
TB	Tuberculosis
TRM	Teacher Resource Management
TSC	Teachers Service Commission
TVET	Technical and Vocational Education and Training
UHC	Universal Health Coverage
WPA	Witness Protection Agency
WWDA	Water Works Development Authority

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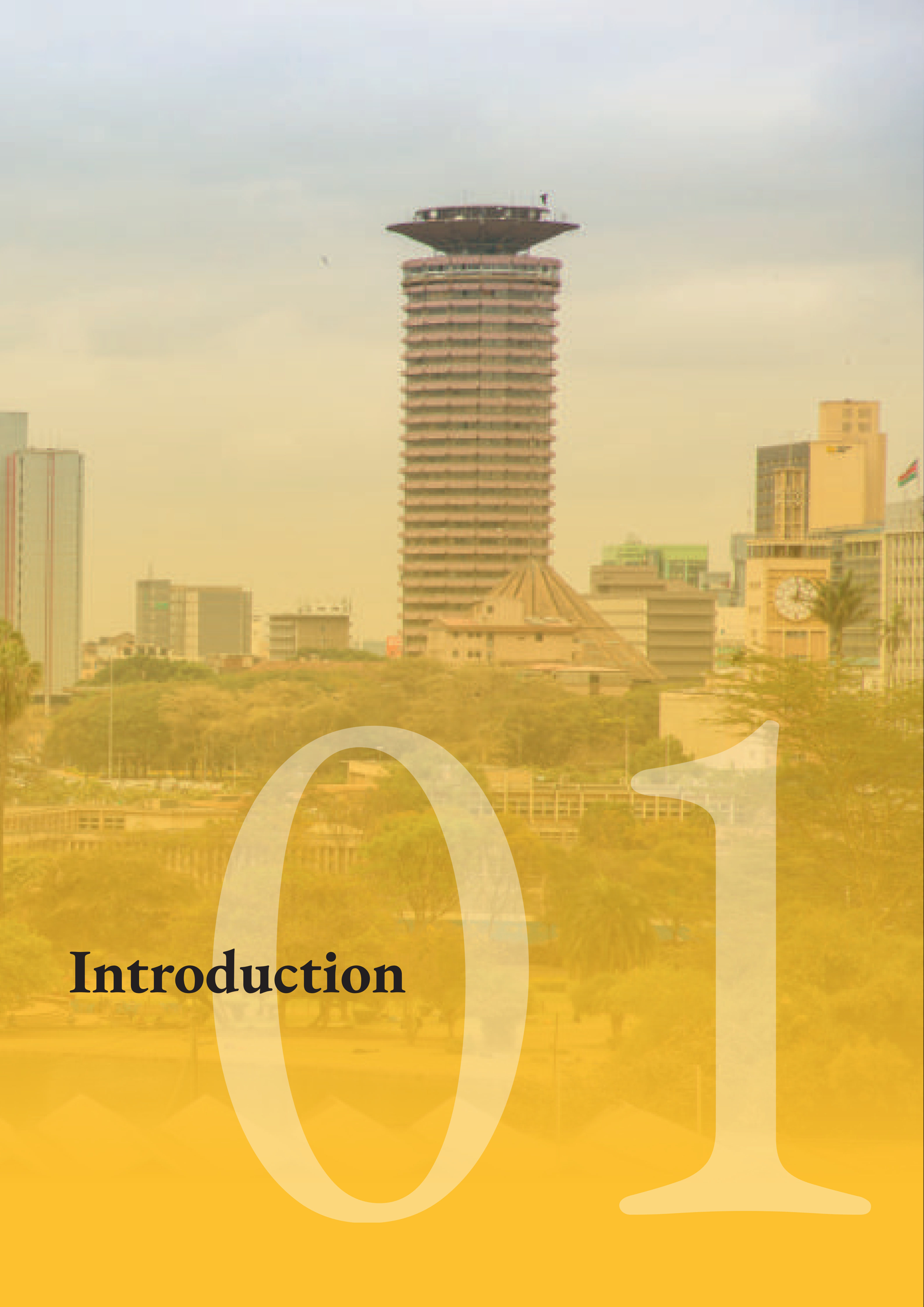


01

Introduction

1.1 Introduction

The 4.1 trillion budget is the second under the Kenya Kwanza administration. The 2024 Budget Policy Statement (BPS) sets a 4 percent increase from the previous 3.9 trillion budget, prioritizing increased allocation for debt service in FY 2024/25. With a focus on "Budgeting in an era of fiscal consolidation, the Institute of Public Finance (IPF) has analyzed spending priorities and budget ceilings as presented in the BPS as well as past budget execution and key performance indicators to produce the 2024 Annual National Shadow Budget.

This report projects gaps such as discrepancies between sector reports and budget allocations, low development budget absorption, pending bills with no allocations, overlaps, redundancies, and duplication of functions. Addressing these gaps will promote efficiency and free up resources that can be reallocated to finance key priorities at a time when the government is walking the fiscal consolidation path.

This 4th edition of the Annual National Shadow Budget offers two critical analyses. Firstly, it evaluates the responsiveness of the previous budget to stakeholders' feedback, including insights from the 3rd edition of the shadow budget, noting the improvements and gaps that continue to persist. secondly, the document delves into budget performance and forward-looking propositions, and raises key questions and recommendations that parliament, civil society, and other actors in the PFM oversight space should ask and demand answers from the executive arm of government during this budget formulation stage.

Some of the key propositions in the 2024, Annual National Shadow Budget include:

- Within the **Education sector,** the primary and secondary education programmes are likely to be most affected since they do not have a way of generating extra revenue. there is a need to fast track the merging of governance and standards programmes with the quality and assurance standards to free up resources that can be used to increase funding for primary and secondary education. Equally, TVETs and Universities, should leverage on research and innovation to generate additional resources.

- Allocation for the **Agriculture Rural and Urban Development (ARUD) sector** should retain the initial budget allocation of Ksh 60 billion of the Crop Development sub-sector in the FY 2023/24 as opposed to 12 billion reduction in the 2024 BPS. This to ringfence delivery of priority programs such as fertilizer subsidy. Equally, the subsidy program should be integrated with the national irrigation program to create synergy in outcomes.

- **The Governance Justice Law and Order (GJLO) sector** should give priority to activities that will enable fighting corruption while at the same time protecting the whistleblowers.

- In the **Health sector,** leasing medical equipment without assessing county readiness reflects a disconnect between planning and implementation, risking ineffective utilization of resources. In FY 2024/25, there is no provision for leasing of medical equipment that translates to about Ksh. 7 billion annually, through the additional allocation from the National government's share of revenue like has been in past. Consequently, there is a review that will allow the Ministry of Health (MoH) to execute the leasing of medical equipment through Intergovernmental Participation Agreements to operationalize the project. The question that begs is who will bear the Ksh. 7 billion annual payment between the MoH and the county governments, given there was no provision for this cost in the BPS 2024?

- The Curative and Reproductive Maternal Neonatal Child & Adolescent Health (RMNCAH) program under State Department for Medical Services (SDMS) significantly overlaps with the Preventive and Promotive Health Service program under State Department for Public Health and Professional Standards (SDPHPS). Both programs include subprograms like Communicable Disease Control, and many RMNCAH activities inherently fall under preventive care.

For all sectors, **setting and reporting of key performance indicators (KPIs) should improve. Sectors should provide KPIs against the resource allocation, and reporting should equally match expenditure.**

1.2 Methodology

We deployed a robust and rigorous methodology to ensure the credibility of our Shadow Budget. The approach involved:

Review of past budgets and performance analysis: To identify trends and patterns in the allocation of resources and to determine the effectiveness of past spending. This analysis helps to identify areas that need improvement and ensure that the proposed spending is more effective and efficient.

We assess government priorities as highlighted in the 2024 BPS and proposed allocations for FY 2024/25 to examine the alignment of funding priorities to commitments made by government. This allows us to examine how changes in budgetary allocation relate to these priorities and past performance.

Consultation with stakeholders: To ensure that the Shadow Budget reflects the needs and priorities of various stakeholders, consultations were held with civil society organizations, academia, and other relevant experts. These consultations helped to identify areas that need improvement and provide valuable input into the budgeting process.

Data sources: The data was sourced from publicly available budget documents, including the Budget Review and Outlook Paper, Sector Working Group Reports, Quarterly Budget Implementation Review Reports, Budget Policy Statement, and the budget itself. Other documents considered include the IMF World Economic Outlook.

02

Macro-Fiscal

2.1 Macro Fiscal outlook

The Shadow Budget comes amid a projected slowdown in global economic growth from 3 percent in 2023 to 2.9 percent in 2024, heightened debt servicing expenses consuming over 60% of tax revenue, external risks especially those stemming from Russia-Ukraine and the Middle East conflicts, and unemployment concerns mostly among youth and the expectation for the government to resolve financing and service delivery inadequacy in the health sector , and implement effective poverty and cost of living reducing measures.

In 2024, the National Treasury projects a 5.5 percent growth in the economy. This is expected to be supported by a rebound in agriculture, government policies and priorities under the Bottom - Up Economic Transformation Agenda (BETA) and the strengthening of domestic currency which will ease external debt burden pressure.

At the same time, domestic and external factors are likely to slow down the economy. Among them include tightening of monetary policy that raises the cost of credit for the private sector and the growing risk for financial institutions due to the rise in non-performing loans. This will likely drive commercial banks to raise credit standards for approving loans. Tightening monetary policy and growing risks to financial institutions, including rising non-performing loans, may impede economic momentum, leading to stricter credit standards by commercial banks.

If the economy undergoes a slowdown, there's a concern that revenue generation might not meet expectations, potentially impacting budget implementation *(Fig. 1and 2).* Despite the National Government's optimistic forecast of a Ksh 300 billion increase in ordinary revenue for the fiscal year 2023/24, there's uncertainty regarding the achievement of this target. At a time when the cost of borrowing has risen and highly accumulated debt shrinks the borrowing space, the government is left with domestic revenue mobilization as the best funding option for FY 2024/25 budget. Therefore, persistent revenue shortfalls against the target will compromise service delivery due to budget under-execution. *(Fig.2).*
It is imperative to focus on implementing the Medium-Term Revenue Strategy (MTRS) and the National Tax Policy (NTP) to enhance revenue streams. These initiatives are crucial for maintaining projections of stable economic growth in FY2024/25 and the medium term. However, without addressing the challenges beleaguering the private sector, including tight monetary policies and delayed payments to government suppliers, the potential for economic and revenue growth could be compromised.

2.2 Sector Allocations for FY2024/25

Ministerial expenditures are expected to increase by 3 percent in FY2024/25 to Ksh. 2.5 trillion. However, due to factors like a steep growth in debt servicing among other competing needs, the 4 percent increase in the overall budget does not yield a positive change in resource allocations for some sectors *(Table 2)*

Table 1: The total budget is rising, but debt servicing is rising faster.

	Approved (Ksh Billion)	2024 BPS Ceiling (Ksh Billion)	Change
	FY2023/24	FY2024/25	
National	2,464	2,511	2%
Executive	2,400	2,438	2%
Parliament	40	41	2%
Judiciary	22	23	4%
CFS (including debt service)	1,131	1,241	10%
County transfers	385	391	1%
Total	**3,981**	**4,143**	**4%**

Data Source: 2024 Budget Policy Statement

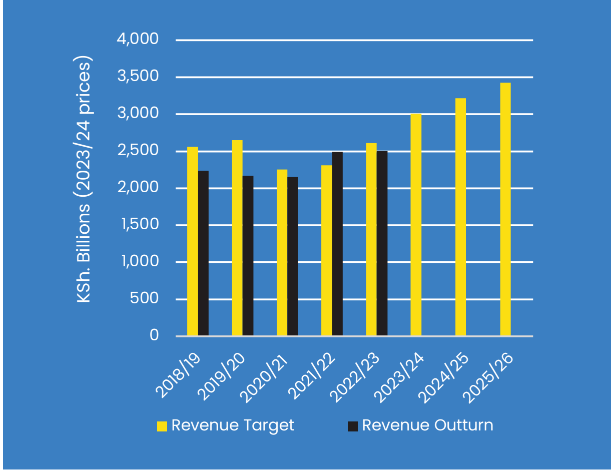


Figure 1: Revenue Forecast vs. Outturn

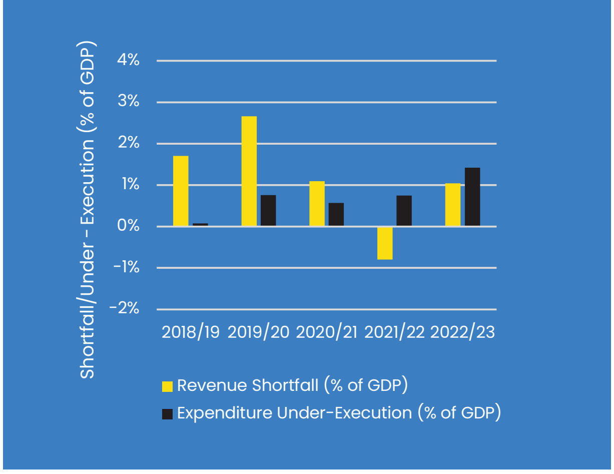


Fig 2: Revenue & Expenditure Execution

Data Source: 2023 Budget Review and Outlook Paper

Despite the government's commitment to supporting SMEs, transforming the agriculture sector, and resolving the funding crisis in education, the changes in resource allocation depicted in *(Table 2)* suggest otherwise. Limited borrowing space to finance the budget and the drawing of huge resources by a high debt servicing burden has forced the government to resort to budget cuts for the General Economic Commercial Affairs (GECA) sector by 22 percent, the Agriculture, Rural, and Urban Development (ARUD) sector by 10 percent, and the Education sector by 3 percent.

Amidst the urgent need for fiscal consolidation and prioritization of social spending, the government is surprisingly channeling significant resources towards PAIR and National Security sectors. Whereas the 10 percent increase in the National Security budget is likely due to the improvement in housing for the police service, it is hard to hold the government to account on how this increment for "development" will be utilized since National Security is a hard audit sector. The 2024 BPS sheds no light on why the National Security budget was prioritized to Social Protection Culture and Recreation (SPCR) which should be strengthening social safety nets, is expected to receive a one percent cut.

Table 2: Summary of sector allocations

	FY2023/24 Supp. Budget (Ksh. Million)	FY2024/25 (BPS ceilings) (Ksh. Million)	Change
NATIONAL SECURITY	**199,287**	**244,422**	**23%**
Recurrent	196,033	205,586	5%
Development	3,254	38,836	1093%
PUBLIC ADMINISTRATION AND INTERNATIONAL RELATIONS (PAIR)	**299,326**	**351,697**	**17%**
Recurrent	182,824	204,964	12%
Development	116,502	146,733	26%
HEALTH	**138,846**	**147,600**	**6%**
Recurrent	88,191	87,325	-1%
Development	50,655	60,275	19%

	FY2023/24 Supp. Budget (Ksh. Million)	FY2024/25 (BPS ceilings) (Ksh. Million)	Change
GOVERNANCE, JUSTICE, LAW & ORDER (GJLO)	**240,336**	**250,919**	**4%**
Recurrent	225,163	232,773	3%
Development	15,173	18,147	20%
ENERGY, INFRASTRUCTURE & ICT	**494,715**	**505,668**	**2%**
Recurrent	145,306	145,306	0%
Development	349,409	360,362	3%
ENVIRONMENT PROTECTION, WATER AND NATURAL RESOURCES	**125,517**	**127,965**	**2%**
Recurrent	34,725	34,549	-1%
Development	90,792	93,416	3%
SOCIAL PROTECTION, CULTURE AND RECREATION (SPCR)	**72,854**	**72,202**	**-1%**
Recurrent	47,822	46,859	-2%
Development	25,031	25,343	1%
EDUCATION	**689,612**	**666,468**	**-3%**
Recurrent	655,658	638,044	-3%
Development	33,954	28,424	-16%
AGRICULTURE, RURAL & URBAN DEVELOPMENT (ARUD)	**98,089**	**87,808**	**-10%**
Recurrent	32,507	29,820	-8%
Development	65,582	57,988	-12%
GENERAL ECONOMIC AND COMMERCIAL AFFAIRS (GECA)	**72,443**	**56,715**	**-22%**
Recurrent	39,576	32,305	-18%
Development	32,868	24,410	-26%
TOTAL	**2,431,023**	**2,511,464**	**3%**
Recurrent	1,647,804	1,657,530	1%
Development	783,220	853,934	9%

Figure 3: National security, public administration and health are the priorities in 2024/25

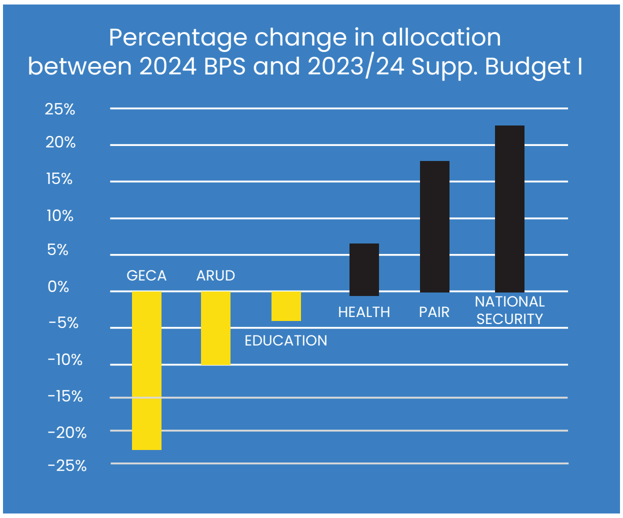
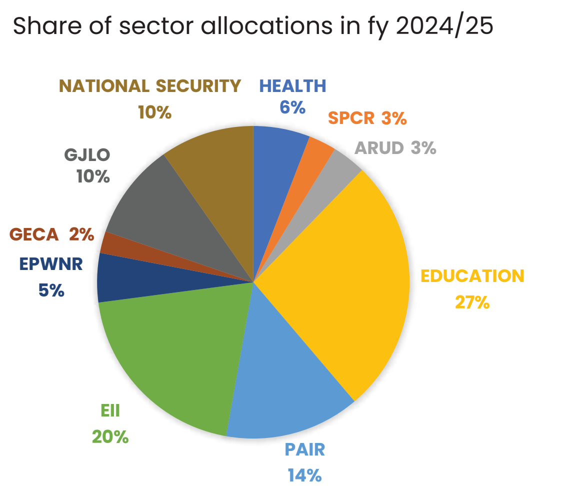


Figure 4: Energy, national security and education take more than half the budget, even amidst cuts



2.3 Cross-cutting issues

There is a pressing need to prioritize the clearance of nearly Ksh. 570 billion nationally and Ksh. 165 billion in county pending bills. Clearing these bills may alleviate liquidity constraints for the private sector, but it could strain government finances, especially amid the necessity for fiscal consolidation.

The cumulative Ksh 570 billion, represents a substantial 23 percent of MDAs' allocations for FY2024/25, highlighting a critical issue. This not only jeopardizes compliance with Section 94(1)(a) of the PFM Act, 2012, but also places MDAs in a precarious position regarding their operational and financial obligations. To mitigate this, a clear medium-term plan is essential. Establishing a central sinking fund could provide a structured approach to gradually pay off the pending bills over the next five years. Alternatively, MDAs could be tasked with making targeted budget cuts to address their outstanding liabilities. This approach would allow for flexibility based on each MDA's unique circumstances, ultimately ensuring a sustainable resolution while averting potential losses from litigation and accrued interests.

It is evident that overlaps, duplications, and redundancies in functions are prevalent across various programmes, leading to a wasteful expenditure of limited resources. Also, national-level MDAs persist in undertaking tasks also within the purview of devolved units. For instance, the Teachers Service Commission (TSC) administers governance and standards programmes, duplicating efforts already undertaken by the quality assurance and standards division within the state department for Basic Education. Similarly, primary healthcare, which aligns more closely with county-level responsibilities, is redundantly managed at the national level through two separate state departments: the State Department for Medical Services and the State Department for Public Health and Professional Standards. Addressing these inefficiencies requires a concerted effort to streamline functions, eliminate redundancies, and ensure that tasks align appropriately with the mandates of national and devolved levels of government. By doing so, resources can be utilized more efficiently to achieve optimal outcomes across all sectors.

The prevalence of overlaps, duplications, and redundancies in functions across various programmes leads to wasteful expenditure of limited resources. National-level Ministries, Departments, and Agencies (MDAs) often undertake tasks also within the purview of devolved units. For example, the Teachers Service Commission (TSC) duplicates efforts already undertaken by the quality assurance and standards division within the state department for Basic Education. Similarly, primary healthcare, aligning more closely with county-level responsibilities, is redundantly managed at the national level through separate state departments. Addressing these inefficiencies requires streamlining functions, eliminating redundancies, and ensuring tasks align appropriately with the mandates of national and devolved levels of government. This optimization allows for more efficient resource utilization and better outcomes across sectors.

A comparative analysis reveals significant discrepancies between sector reports and budget allocations, indicating a weak linkage between planning and budgeting. These discrepancies hinder accountability and make it challenging to determine the efficient utilization of resources.

- **In the health sector, leasing medical equipment without assessing county readiness reflects a disconnect between planning and implementation, risking ineffective utilization of resources.** In FY 2024/25, there is no provision for leasing of medical equipment that translates to about Ksh. 7 billion annually, through the additional allocation from the National government's share of revenue like has been in past. Consequently, there is a review that will allow the Ministry of Health (MoH) to execute the leasing of medical equipment through Intergovernmental Participation Agreements to operationalize the project. The question that begs is who will bear the Ksh. 7 billion annual payment between the MoH and the county governments, given there was no provision for this cost in the BPS 2024?

- While there are pledges to uphold Universal Health Coverage (UHC) via Social Health Insurance (SHI), Primary Health Care (PHC), and support for Community Health Promoters

(CHPs), as well as funding for emergency, chronic, and critical conditions, the absence of budget votes for these areas in the budget policy statement indicates a misalignment with policy priorities.

- In FY 2022/23, both the State Department for Public Health and Professional Standards (SDPHPS) and State Department of Medical Services (SDMS) had the same programs except for the National Referral and Specialized Services that was only under SDMS. An attempt was made in FY2023/24 to address the duplicity. However, the move has created redundancy between the SDPHPS and SDMS programs. Specifically, the Curative and Reproductive Maternal Neonatal Child & Adolescent Health (RMNCAH) program under SDMS significantly overlaps with the Preventive and Promotive Health Service program under SDPHPS. Both programs include subprograms like Communicable Disease Control, and many RMNCAH activities inherently fall under preventive care.

- Highlighting the fight against corruption is aimed at safeguarding public resources, but, is likely to be affected by the decrease in allocation for crucial agencies like the Office of the Director of Public Prosecutions (ODPP) and Witness Protection that are faced with 9 percent and 4 percent budget cuts respectively. For EACC to effectively work it needs to employ a multi-agency approach. Instead, the resources added to the State Department for Immigration and Citizen Services could be re-allocated, since the Appropriation In Aid (AIA) for this department is expected to increase after the introduction of service charges on issuance of identity cards, and increased fees for passports and marriage certificates among others.

- **Education sector priorities lack clear KPIs, leading to uncertainty about performance tracking and accountability.** For instance, the Sector Working Report for 2023/24 targets to employ 3,000 TVET tutors while the 2024 BPS states 2,000 tutors.

- **Despite Library Services within the State Department for Culture and Heritage consuming 91 percent of the budget in FY2022/23, the absence of clear and measurable Key Performance Indicators (KPIs) impedes performance tracking and accountability.** This issue is particularly concerning given the substantial budget allocation of Ksh. 553 million for Libraries in FY2024/25.

- **While the Galana Kulalu Irrigation development project has made significant strides, utilizing 90 percent of the estimated project cost and achieving a reported 97 percent completion rate of civil works, but fails to give targets of actual yields.** Despite handing over a portion of the project to a private investor for trials, detailed information on yields and crops cultivated remains elusive. This discrepancy between reported completion rates and actual achievements raises questions about project transparency and effective resource allocation. A thorough review and clarification are necessary to ensure accountability and optimize resource utilization moving forward.

- **Budgeting should be guided by policy documents and blueprints.** Vision 2030 targeted to address the issue of access and affordability of fertilizer through identification of a private investor for blending. There seems to be a departure from this approach as the 2024 BPS targets to lower the cost of inputs using fertilizer subsidies.

- **Low development budget absorption:** a concerning trend emerges with an average of 40 percent of development budgets remaining unabsorbed across various programs. This low absorption rate, coupled with the accumulation of pending bills and stalled projects, underscores the need for improved efficiency and effectiveness in budget implementation.

03

Sector Deep Dives

3.1 General Economic and Commercial Affairs (GECA)

3.1.1 Overview

The GECA sector is identified as significant in the delivery of the Bottom-up Economic Transformation Agenda as an enabler and a driver, with both service and production-oriented functions set to be prioritized.

3.1.2 Sector Priorities in the 2024 BPS.

As a driver, the 2024 Budget Policy Statement (BPS) has presented government priority for the sector as promoting MSMEs, manufacturing, Agro-processing industry, and growth.

As a driver, the 2024 Budget Policy Statement (BPS) has presented government priority for the sector as promoting MSMEs, manufacturing, Agro-processing industry, and growth.

3.1.3 Key Messages for FY 2024/25

It is imperative to reallocate funds from other State Departments within GECA towards developing the State Department for Industry and the State Department for MSMED. This is owing to the critical role which the State Department for Industry plays as a driver in the delivery of the Government's Bottom-up Economic Transformation Agenda for job creation and attainment of higher and sustained economic growth, and the State Department for MSMED, which is vital in the achievement of one among the six BETA core pillars of developing the Micro, Small and Medium Enterprises (MSME) economy.

3.1.4 Previously Raised and Persistent Budget Issues

This section reviews the level of responsiveness by the government to several concerns raised in the 2023 Shadow Budget. This includes an analysis to establish the extent to which the concerns raised were addressed in the approved FY 2024/2025 budget and consequent supplementary budget I.

1. **Budget cuts depsite alarming number of stalled capital projects**

Notably, some of the previously stalled projects have progressed and are nearing completion, such as the modernization of RIVATEX at 95 per cent as of 31st December 2023. Some of the consequences of the delayed implementation of these projects are accumulation of interests and penalties, gaps in the realization of the desired outcomes and inefficiencies in service delivery to the citizenry.

While the government has made these strides, slow implementation pace and cases of stalling persist attributed to budget cuts. For example, for the Construction and Equipping of Industrial Research Laboratories at KIRDI Project in the FY 2022/2023 the approved budget was Ksh. 621.7 million against an outstanding balance of approximately Ksh. 1.5 billion as of 30th June 2023 according to the SWG report, with the expected completion date for the project set for June 2024. It would thus be expected that allocations be higher in FY 2022/2023 as compared to the previous years to boost the implementation pace

2. **Performance of KPIs remain low although the justifications given for the underperformance compared to the information that was given during our previous analysis**

In the 2023 shadow budget, the review focused on how sufficient explanations were, especially for some indicators which were reportedly underachieved. For example, Trade and Enterprise Development under the Fair Trade and Consumer programme had targeted to raise compliance and strengthen standards. One of the KPIs was to calibrate 411 standards in FY 2019/20, but this was revised to zero in FYs 2020/21 and 2021/22 because "the air conditioning system in the laboratory was not functional and no budgetary allocation was made to repair the system". The justification does not provide a sensible causal relationship between the KPI, calibrate 411 standards, and the cause for underachievement, the air conditioning system.

Evidently, unsatisfactory explanations for underachievement of KPIs still persist and therefore there is a need for government entities to provide sufficient detail to explain any variation in outcomes, in addition, there should be a proper alignment between the strategic goals, key outcomes, key objectives and the KPIs[1].

Notably, there is a level of improvement in the sufficiency of justifications given for underachievement of some of the KPIs. For example, under the State Department for Development of the ASALs under the Accelerated ASALs Development Programme, the cause for underperformance of No. of beneficiary households under regular hunger safety net programme, was indicated as periodic cleaning of the new register/payroll in FY 2020/21 and 2021/22. Further, data accounts clean ups are indicated as the cause for underperformance in the FY 2022/23, where out of the 32,000 Households (HHs) targeted in the expansion counties, only 23,895 HHs were reached.

3. **While the sector paid part of the previous pending bills in FY 2022/2023, analysis has shown that some departments accumulated more bills which were carried over to the current financial year.**

The sector had accumulated pending bills amounting to Ksh 17.4 billion. Current review indicates that the government has made progress in settling some of the previous pending bills, thus reducing the total figure by 7.8 billion.

MDAs are required to treat carryover payments as a first charge, prior to entering new commitments according to Treasury Circular No. 7/2023. Going by this directive, the implementation of the 2024/2025 priorities and commitments would be affected especially for the MDAs with pending bills. Reportedly, pending bills have adversely affected economic activities especially on the Small and Medium Enterprises.

However, despite the sector settling part of the previous pending bills, some departments have accumulated more bills (shown in Table 3) with the highest being from the State Department for ASALS and Regional Development with a shift from Ksh. 3.1 billion in June 2022 to 8.7 billion as at June 2023, followed by State Department for Industry with a shift from 0.25 billion to 0.82 billion, State Department for tourism from 0.18 billion to 0.71 billion, and state department for EAC with a shift from 0.16 billion to 0.67 billion for the same period. The least increases are in the State Department for Trade and Cooperatives from, each increasing by Ksh.0.14 billion and 0.11 billion respectively.

4. **While budget cuts to flagship projects were below the 10 percent threshold in FY 2023/2024, there is a need to ensure adequate capital spending in the sector.**

In the previous review, allocation in the first supplementary budget for the sector was reduced by Ksh. 26 billion, which translated to an overall budget cut of 14 percent. This was a breach of Public Finance Management (PFM) (National Government Regulations), 2015 that provides for a maximum of 10 percent reallocation at the sub-vote level unless it is for unforeseen and unavoidable need.

Breaches of the 10 percent reallocation suggest poor budgeting practices or attempts to circumvent the approved budget and priorities thus affecting the efficiency of service delivery.

There was a notable improvement for FY 2023/24, where the sector received an allocation of Ksh 72 billion (shown in Table 2) and was reduced to Ksh 68 billion in the first supplementary budget for FY 2023/24, which translated to an overall budget cut of 6 percent. However, the largest reductions were toward capital spending, which hinders the completion of the key flagship projects in the sector such as the Numerical Machining Complex and Development of Athi River textile hub.

[1] https://internationalbudget.org/publications/assessing-reasons-in-government-budget-documents/

3.1.5 Review of Financial and Non-Financial Performance in FY 2022/23

Overall, the State Department for Industry achieved a high absorption rate of 85 percent for the FY 2022/2023 (shown in Table 1), thus illustrating intentionality from the sector in meeting various KPI targets. However, despite this high absorption rate, there were cases of underachievement in various programmes. For example, under the Numerical Machining Complex, there was a KPI to produce 150 tonnes of casting of which only 55 was achieved. Despite the State Department for Micro, Small, and Medium Enterprises (MSMED achieving an absorption rate of 96 percent within the sector during FY 2022/2023, it faced challenges in meeting certain key performance indicators (KPIs). Within the program aimed at promoting and developing MSMEs, there was a target to establish five industrial cottages to reduce the importation of edible oil and improve dairy and fish farming, but this target was not met. Notably, there were some programmes for instance Product and Market Development for MSMEs and Digitization and Financial Inclusion for MSMEs which had no budgetary allocation yet had various KPIs reportedly achieved. This undermines the credibility of the budget.

Table 3: GECA Sector Budget Performance FY 2022/23 (Ksh Millions) and Absorption Rate (%)

Sector/Vote/Programme Details	2022/23 Approved Budget			2022/23 Actual Expenditure			Absorption Rate			Average KPIs achieved in FY 2022/23
	Rec	Dev.	Total	Rec	Dev.	Total	Rec	Dev.	Total	
GENERAL ECONOMIC AND COMMERCIAL AFFAIRS	**29,869**	**42,933**	**72,802**	**21,653**	**26,772**	**48,426**	**72%**	**62%**	**67%**	
State Department for Regional and Northern Corridor Development	**3,336**	**3,838**	**7,174**	**2,828**	**3,088**	**5,916**	**85%**	**80%**	**82%**	
Integrated Regional Development	3,336	3,838	7,174	2,828	3,088	5,916	85%	80%	82%	54%
State Department for Development of The Asals	**6,377**	**14,428**	**20,805**	**5,227**	**9,001**	**14,228**	**82%**	**62%**	**68%**	
Accelerated ASALs Development	6,377	14,428	20,805	5,227	9,001	14,228	82%	62%	68%	84%
State Department for Cooperatives	**2,138**	**20,823**	**22,960**	**1,922**	**12,761**	**14,683**	**90%**	**61%**	**64%**	
Cooperative Development and Management	2,138	20,823	22,960	1,922	12,761	14,683	90%	61%	64%	68%
State Department for Trade	**2,953**	**1,265**	**4,218**	**2,942**	**795**	**3,737**	**100%**	**63%**	**89%**	
Domestic Trade and Enterprise Development	1,084	1,265	2,349	1,072	795	1,866	99%	63%	79%	52%
Fair Trade Practices and Compliance of Standards	506	-	506	506	-	506	100%	0%	100%	34%
International Trade Development and Promotion	966	-	966	964	-	964	100%	0%	100%	67%
GAPSS	397	-	397	400	-	400	101%	0%	101%	90%
State Department for Industry	**2,672**	**1,236**	**3,908**	**2,250**	**1,069**	**3,320**	**84%**	**86%**	**85%**	
GAPSS	372	-	372	354	-	354	95%	0%	95%	100%
Industrial Development and Investment	950	438	1,388	802	422	1,224	84%	96%	88%	86%
Standards and Business Incubation	1,350	798	2,148	1,094	647	1,742	81%	81%	81%	87%

Sector/Vote/Programme Details	2022/23 Approved Budget			2022/23 Actual Expenditure			Absorption Rate			Average KPIs achieved in FY 2022/23
	Rec	Dev.	Total	Rec	Dev.	Total	Rec	Dev.	Total	
State Department for Micro Small and Medium Enterprises Development	**587**	**46**	**634**	**560**	**46**	**606**	**95%**	**100%**	**96%**	
Promotion and Development of MSMEs	480	46	526	480	46	526	100%	100%	100%	80%
Product and Market Development for MSMEs	-	-	-	-	-	-	0%	0%	0%	50%
Digitization and Financial Inclusion for MSMEs	-	-	-	-	-	-	0%	0%	0%	77%
GAPSS	108	-	108	80	-	80	74%	0%	74%	33%
State Department for Investments Promotion	**975**	**1,238**	**2,213**	**899**	**-**	**899**	**92%**	**0%**	**41%**	
Industrial Development and Investments	878	1,238	2,116	822	-	822	94%	0%	39%	82%
GAPSS	97	-	97	77	-	77	79%	0%	79%	78%
State Department for Tourism	10,055	59	10,114	4,264	13	4,277	42%	22%	42%	
Tourism Promotion and Marketing	936	-	936	902	-	902	96%	0%	96%	83%
Tourism Product Development and Diversification	8,849	25	8,874	3,172	-	3,172	36%	0%	36%	76%
GAPSS	270	34	304	190	13	203	70%	38%	67%	49%
State Department for East African Community	**776**	**-**	**776**	**761**	**-**	**761**	**98%**	**0%**	**98%**	
East African Affairs and Regional Integration	776	-	776	761	-	761	98%	0%	98%	71%

Data Source: National Treasury, SWG Report

3.1.6 Analysis of Sector Allocations for FY 2024/25 and Recommendations

The key questions raised are categorized into: Budget Cuts and Stalled Projects, Pending Bills, KPIs and Performance, and Credibility of Budget Information.

Why are there budget cuts for some stalled projects which are deemed critical in job creation and attainment of higher and sustained economic growth?

The State Department for Industry is meant to increase the contribution of the Manufacturing Sector to the GDP and employment. It plays a key role as a driver in the delivery of the Government's Bottom-up Economic Transformation Agenda. As observed previously, due to budget cuts, many of its projects have been delayed.

The construction and equipping of Industrial Research Laboratories at KIRDI Project in the FY 2022/2023 the approved budget was Ksh. 621.7 million from Ksh. 643.4 million in the previous financial year 2021/2022 depicting a budget cut. The completion date set for June 2024 and the large outstanding balance needed to complete the project should have led to an increase in allocation for FY 2022/2023, not a decrease.

The State Department for Industry needs to comply with the budget circular No.8/2021 on guidelines for preparation of the FY 2022/2023-2024/2025 Medium Term Budget. There was recommendation and emphasis on adequate funding towards completion of ongoing projects and stalled projects, particularly those nearing completion, to ensure that citizens benefit from the investments.

Why is the stock of pending bills still high despite the numerous circulars and directives by the national treasury requiring MDAs to prioritize pending bills as the first charge on the budget?

The continual accumulation of pending bills amounting to 7.46 billion for the period ending 30th June 2023 raises concern as to how this sector will be able to comply with the circular that requires that carryover payments are treated as first charge, prior to entering new commitments. This could pose a hindrance in achievement of the sector's role in the Bottom-up Economic Transformation Agenda for attainment of higher and sustained economic growth.

Table 4: GECA FY 2024/25 Budget Allocation (Ksh Millions)

Sector/Vote/Programme Details	Approved Estimates 2023/24			2024/25 BPS Ceilings			% change in allocation	Average KPIs achieved in FY 2022/23	
	Current	Capital	Total	Current	Capital	Total		2023/ 24	2024/ 25
GENERAL ECONOMIC AND COMMERCIAL AFFAIRS	**39,575.5**	**32,867.5**	**72,442.9**	**32,305.3**	**24,410.0**	**56,715.3**	**-22%**	**100%**	**100%**
State Department for the ASALs and Regional Development	**14,921.6**	**9,138.0**	**24,059.6**	**9,488.0**	**5,507.7**	**14,995.7**	**-38%**	**33%**	**26%**
Accelerated ASAL Development	11,650.7	4,426.4	16,077.1	6,467.4	1,750.1	8,217.5	-49%	22%	14%
GAPSS	502.9		502.9	402.8		402.8	-20%	1%	1%
Integrated Regional Development	2,768.0	4,711.6	7,479.6	2,617.8	3,757.6	6,375.5	-15%	10%	11%
State Department for Cooperatives	**1,788.9**	**4,514.0**	**6,302.9**	**1,856.8**	**503.8**	**2,360.5**	**-63%**	**9%**	**4%**
Cooperative Development and Management	1,788.9	4,514.0	6,302.9	1,856.8	503.8	2,360.5	-63%	9%	4%
State Department for Trade	**3,260.8**	**50.0**	**3,310.8**	**3,450.4**	**50.0**	**3,500.4**	**6%**	**5%**	**6%**
Domestic Trade and Enterprise Development	1,431.2	50.0	1,481.2	2,004.9	50.0	2,054.9	39%	2%	4%
Fair Trade Practices and Compliance of Standards	96.5	-	96.5	79.5	-	79.5	-18%	0%	0%
International Trade Development and Promotion	1,053.7	-	1,053.7	900.5	-	900.5	-15%	1%	2%
GAPSS	679.3	-	679.3	465.5	-	465.5	-31%	1%	1%
State Department for Industry	**2,987.6**	**6,730.7**	**9,718.3**	**2,776.9**	**6,904.2**	**9,681.1**	**0%**	**13%**	**17%**
GAPSS	531.4		531.4	471.0		471.0	-11%	1%	1%
Industrial Training & Industrial Development	1,304.0	4,912.0	6,215.9	1,122.9	4,919.0	6,041.9	-3%	9%	11%
Standards and Business Incubation	1,152.3	1,818.8	2,971.0	1,183.0	1,985.2	3,168.2	7%	4%	6%
State Department for Micro Small and Medium Enterprises Development	**1,871.6**	**6,650.6**	**8,522.2**	**2,464.8**	**6,196.8**	**8,661.7**	**2%**	**12%**	**15%**

Sector/Vote/Programme Details	Approved Estimates 2023/24			2024/25 BPS Ceilings			% change in allocation	Average KPIs achieved in FY 2022/23	
	Current	Capital	Total	Current	Capital	Total		2023/24	2024/25
Promotion and Development of MSMEs	496.5	1,183.6	1,680.2	517.2	114.3	631.6	-62%	2%	1%
Product and Market Development for MSMEs	497.5	80.0	577.5	731.4	882.5	1,613.9	179%	1%	3%
Digitization and Financial Inclusion for MSMEs	478.8	5,387.0	5,865.8	703.4	5,200.0	5,903.4	1%	8%	10%
GAPSS	398.7	-	398.7	512.9		512.9	29%	1%	1%
State Department for Investments Promotion	**1,562.2**	**5,642.0**	**7,204.2**	**1,357.8**	**4,605.4**	**5,963.2**	**-17%**	**10%**	**11%**
Investment Development and Promotion	1,562.2	5,642.0	7,204.2	1,357.8	4,605.4	5,963.2	-17%	10%	11%
State Department for Tourism	**12,255.1**	**142.2**	**12,397.2**	**10,303.0**	**606.7**	**10,909.7**	**-12%**	**17%**	**19%**
Tourism Promotion and Marketing	372.0	100.0	972.0	335,4	110.4	993.8	2%	1%	2%
Tourism Product Development and Diversification	11,082.1	25.0	11,107.1	9,134.8	496.3	9,631.1	-13%	15%	17%
GAPSS	301.0	17.2	318.2	284.8	-	284.8	-10%	0%	1%
State Department for East African Community	**927.7**	**-**	**927.7**	**607.6**	**35.4**	**643.0**	**-31%**	**1%**	**1%**
East African Affairs and Regional Integration	927.7	-	927.7	607.6	35.4	643.0	-31%	1%	1%

Data Source: 2024 Budget Policy Statement

Why are there budget cuts for some stalled projects which are deemed critical in job creation and attainment of higher and sustained economic growth?

The State Department for Industry is meant to increase the contribution of the Manufacturing Sector to the GDP and employment. It plays a key role as a driver in the delivery of the Government's Bottom-up Economic Transformation Agenda. As observed previously, due to budget cuts, many of its projects have been delayed. Overall, the sector is projected to face a budget cut of 22 percent.

The construction and equipping of Industrial Research Laboratories at KIRDI Project in the FY 2022/2023 the approved budget were Ksh. 621.7 million from Ksh. 643.4 million in the previous financial year 2021/2022 depicting a budget cut. The completion date set for June 2024 and the large outstanding balance needed to complete the project necessitated an increase in allocation for FY 2022/2023.

The State Department for Industry needs to comply with the budget circular No.8/2021 on guidelines for preparation of the FY 2022/2023-2024/2025 Medium Term Budget. There was a recommendation and emphasis on adequate funding towards completion of ongoing projects and stalled projects, and particularly those nearing completion to ensure that citizens benefit from the investments.

Why is the stock of pending bills still high despite the numerous circulars and directives by the national treasury requiring MDAs to prioritize pending bills as the first charge on the budget?

The continual accumulation of pending bills amounting to 7.46 billion for the period ending 30th June 2023 (shown in Table 5) raises concern as to how this sector will be able to comply with the circular that requires that carryover payments are treated as first charge, prior to entering new commitments. This could pose a hindrance in achievement of the sector's role in the Bottom-up Economic Transformation Agenda for attainment of higher and sustained economic growth. This is as an enabler and a driver, with both service and production-oriented functions.

There is a need to take stock and thorough analysis of the pending bills across the six departments reported as having pending bills under this sector to ensure that there is no accrual in payment of pending bills. Further, in compliance with the circular, the accounting officers are required to also ensure that carryover payments are treated as the first charge before entering into any new commitments.

Why is there a discrepancy in budget information provided by governments entities i.e., the SWG report and the 2023/24 FY Half year budget implementation report by the Office of the Controller of Budget?

A Review of the SWG report and the Budget Implementation Review Report by the OCOB for the FY 2023/2024 half year, shows some discrepancies in budget information provided by the same sector.

The SWG report indicates that the expected completion date for the Development of Athi River Textile Hub-EPZA is due in June 2024 whereas in the OCOB Half Year Implementation year report it is reported as due in June 2026. Also, under the project titled Construction and Equipping of industrial research laboratories as KIRDI (Kenya Industrial Research and Development Institute), the percentage completion rate is at 80 per cent in the SWG while in the OCOB Half Year Implementation year report, the percentage completion rate is reported at 69 per cent.

In the OCOB Half Year Implementation year report, the Development of Athi River Textile Hub-EPZA is placed under the State Department for Investment Promotion while in the SWG report, it is placed under the State Department for Industry.

One fundamental financing principle is that money follows functions. Such discrepancies in reporting challenge the credibility of the planning and budgeting process as it becomes unclear whether money allocated for the Development of Athi River Textile Hub-EPZA project and the Construction and Equipping of industrial research laboratories at KIRDI is expected to spread over a 2 year or a 1-year period. It is also unclear under which program/sub-program the resources for Development of Athi River Textile Hub-EPZA project is anchored.

There is a need for proper consultations and verification of budget information between government institutions to ensure accuracy and consistency in budget information.

Table 5: Pending Bills Analysis for the GECA sector as of 30th June 2023 in (Ksh Billions)

STATE DEPARTMENTS	30TH JUNE 2022	30TH JUNE 2023	DIFFERENCE
ASALS and regional development	3.1	8.7	5.6
Industry	0.25	0.82	0.57
Tourism	0.17	0.71	0.53
EAC	0.16	0.66	0.51
Trade	0.38	0.52	0.14
Cooperatives	-	0.11	0.11
TOTAL	**4.06**	**11.52**	**7.46**

Data Source:2024 BPS

Why are some of the programmes performing dismally according to the KPI's and with no adequate justifications?

KPI's play a pivotal role in measuring the success and impact of change in government investments across sectors, programmes and sub programmes. According to the Treasury Circular No. 7/2023, guidelines for implementation of the FY 2023/2024 and the medium term. Review of the KPIs performance shows that some of the programmes posted below average performance and with no adequate justifications. For example, under the sub-programme; Youth, Women and PWDs Empowerment, there was a KPI to train and offer credit to 5000 groups but only 1438 were reached (29 per cent) with justification for underachievement cited as "The terms of the Constituency committees expired which affected Loan disbursement".

Under the Youth Employment Services, there was a KPI to disburse KSHs 511 million in loans for youths to start or expand their businesses, out of which only KSHs 143.8 million was disbursed, representing a 29 per cent performance. The justification for underachievement was given as "The Fund's transition to an Enterprise Resource Planning caused delays in loan disbursements'"While under General Administration Planning and Support Services there was a KPI targeting 100 administrative services, out of which none was achieved with the reason for underachievement given as "Survey not yet undertaken to establish percent customer level of satisfaction." There is a noticeable lack of accountability and proper planning in addressing alternative strategies for loan disbursements or contingency plans.

If the government is implementing KPIs that have foreseeable obstacles to achievement, it is paramount to consider how the alternative methods either influenced achievement or underachievement.

3.2 Energy, Infrastructure, And ICT Sector (EII)

3.2.1 Overview

The EII sector plays a crucial role as a facilitator for economic growth, development, and alleviation of poverty. Its primary aim is to maintain and enhance physical infrastructure to accommodate the fast-paced expansion of the economy, the Medium-Term Plan, and the Kenya Vision 2030. With a moderate decrease of 4 percent in total allocation from Ksh 528 billion to Ksh 505 billion, the EII sector embraces a period of fiscal consolidation marked by recalibrated priorities and resource reallocation.

While some State Departments have seen increased allocations, others will grapple with the realities of fiscal consolidation. Department for Shipping and Maritime Affairs, Department for Transport, and Public Works and Department for ICT and Digital Economy will have an increased allocation. The State Department for Information Communication Technology & Digital Economy will see an increase of 46 percent. This underscores the government's commitment to infrastructure development and maintenance. Departments for Roads, Broadcasting & Telecommunication received a budget cut while Department Petroleum for Energy remained unchanged.

3.2.2 Sector Priorities in the 2024 BPS

In the BPS, EII sector has been singled out as the enabler of other economic sectors, particularly infrastructure which is aligned to the Bottom-Up Economic Transformation Agenda (BETA) Agenda (Digital Superhighway), Sustainable Development Goals (SDGs) and Africa Agenda 2063. It is against this backdrop that the government aims to address the housing deficit by provision of 250,000 houses annually.

The government also aims to address the housing deficit through this section by providing 250,000 houses annually. Thus, the government has allocated resources based on BETA (Bottom-Up Economic Transformation Agenda and Medium Term IV

3.2.3 Key Messages for FY 2024/25

Large infrastructure projects have been contributing to a sharp increase in borrowing. In FY 2024/25 Coast Line Infrastructure and Pedestrian Access will have a budget increase of 210 percent, 90 percent for Urban and Metropolitan Development, 80 percent for maritime access at 242 percent increase for E-Government Services. With the sector being allocated Ksh. 505 billon, and its potential to drive the country into more debts, there is need for increased oversight and accountability to ensure value for money. Moreover, the government should be very specific on how the sector will address housing in the informal settlement since the 2024 BPS has no allocation for Kenya Informal Settlement Improvement, transform economic viability of urban centers, and address the issue of fossil fuel.

3.2.4 Previously Raised and Persistent Budget Issues.

In FY 2022/23 programs in the EII sector registering low absorption rates with no justification provided. Low absorption rates in Maritime, Rail Transport Service, and Road Transport and Safety Regulations of 12 percent were recorded while GAPSS recorded an absorption rate of 81 percent in the State Department for Transport. Analysis of the FY 2022/23 reveals that the absorption rates for Maritime surged to 105 percent while GAPSS decreased to 76 percent and Rail transport had an absorption rate of 0 percent. The 0 percent in the absorption was associated with the failure to develop a Railway Bill as earlier envisaged although funds were allocated for this.

Different from the FY 2022/23 State Department for Transport achieved all its KPIs, thus a significant improvement. This was based on the concerns raised on the justification for the huge increase in the proposed allocations for the State Department of Transport in FY 2023/24 while the Department recorded a low absorption rate of 31 percent in FY 2021/22. Review of the 2024 Budget Policy Statement, the State Department for Transport received a budget allocation of 61 billion. From the Office of Controller of Budget Report for the first six months of the Financial Year (FY) 2023/24 covering 1st July to 31st December 2023, the State Department has posted an absorption rate of 83.0 percent. This is an indication that for the FY 2023/24 most of the KPI are likely to be achieved.

3.2.5 Review of Financial and Non-Financial Performance in FY 2022/23

Key Performance Indicators (KPIs) for FY 2022/23, the EII sector demonstrated a mixed performance across various programs and departments. While some of the programs achieved their KPIs, others underachieved. Achieved KPIs may demonstrate progress in infrastructure projects such as roads, bridges, or public transportation systems, while underachieved KPIs highlight delays or budgetary constraints.

Table 6: Energy, Infrastructure, and ICT Sector Budget Performance FY 2022/23 (Ksh Millions) and Absorption Rate (%)

Program	2022/23 Approved Budget			2022/23 Actual Expenditure			Absorption Rate			% expenditure of the total	Average KPI performance (%)
	Rec	Dev.	Total	Rec	Dev.	Total	Rec	Dev.	Total		
Energy, Infrastructure, and ICT Sector											
State Department for Roads	**69,017**	**101,728**	**170,745**	**68,780**	**90,263**	**159,043**	**100**	**89%**	**93%**	**51.2%**	-
Road Transport	69,017	101,728	170,745	68,780	90,263	159,043	100%	89%	93%	51.2%	100
State Department for Transport	**9,831**	**2,662**	**12,493**	**12,077**	**512**	**12,589**	**123%**	**19%**	**101%**	**4.1%**	**63.1**
GAPSS	290	140	430	219	38	257	76%	27%	60%	0.1%	-
Rail Transport	-	1,893	1,893	-	-	-	0%	0%	0%	0.0%	100
Marine Transport	607	468	1,075	656	468	1,124	108%	100%	105%	0.4%	74.1
Air Transport	8,262	61	8,323	10,279	6	10,285	124%	10%	124%	3.3%	100

Program	2022/23 Approved Budget			2022/23 Actual Expenditure			Absorption Rate			% expenditure of the total	Average KPI performance (%)
	Rec	Dev.	Total	Rec	Dev.	Total	Rec	Dev.	Total		
Road Transport and Safety Regulation	672	100	772	923	-	923	137%	0%	120%	0.3%	100
State Department for Shipping and Maritime Affairs	**2,180**	**690**	**2,870**	**1,717**	**266**	**1,983**	**79%**	**39%**	**69%**	**0.6%**	**77.0**
Shipping and Maritime Affairs	2,180	690	2,870	1,717	266	1,983	79%	39%	69%	0.6%	77.0
State Department for Housing & Urban Development	**1,243**	**10,526**	**11,769**	**1,209**	**9,133**	**10,342**	**97%**	**87%**		**88%**	**3.3%**
Housing Development and Human Settlement	738	7,780	8,518	722	7,136	7,859	98%	92%	92%	2.5%	49.8
Urban and Metropolitan Development	267	2,746	3,013	255	1,997	2,251	96%	73%	75%	0.7%	59.5
GAPSS	238	-	238	232	-	232	97%	0%	97%	0.1%	93.3
State Department for Public Works	**3,072**	**436**	**3,508**	**2,906**	**435**	**3,341**	**95%**	**100%**		**95%**	**1.1%**
Government Buildings	429	203	632	434	203	637	101%	100%	101%	0.2%	100
Coastline Infrastructure and Pedestrian Access	143	160	303	143	159	302	100%	99%	100%	0.1%	100
GAPSS	354	10	364	342	10	352	97%	100%	97%	0.1%	91.7
Regulation & Development of Construction Industry	2,146	63	2,209	1,987	63	2,050	93%	100%	93%	0.7%	88.6
State Department for Information Communication Technology & Digital Economy	**2,816**	**11,670**	**14,486**	**2,408**	**9,270**	**11,678**	**86%**	**79%**	**81%**	**3.8%**	**-**
GAPSS	319	-	319	316	-	316	99%	0%	99%	0.1%	75.0
ICT Infrastructure Development	581	11,396	11,977	581	9,126	9,707	100%	80%	81%	3.1%	92.2
E-Government Services	1,916	274	2,190	1,511	144	1,655	79%	53%	76%	0.5%	134
State Department for Broadcasting & Telecommunications	**6,279**	**267**	**6,545**	**5,316**	**187**	**5,501**	**85%**		**70%**	**84%**	**1.8%**
GAPSS	212	-	212	211	-	211	100%	0%	100%	0.1%	94.4
Information and Communication Services	5,119	157	5,275	4,167	91	4,257	81%	58%	81%	1.4%	96.0
Mass Media Skills Development	224	35	259	224	28	251	100%	80%	97%	0.1%	49.7
Film Development Services Programme	724	75	799	714	68	782	99%	91%	98%	0.3%	99.9
State Department for Energy	**11,689**	**43,119**	**54,808**	**9,363**	**31,276**	**40,639**	**80%**		**73%**	**74%**	**13.1%**

Program	2022/23 Approved Budget			2022/23 Actual Expenditure			Absorption Rate			% expenditure of the total	Average KPI performance (%)
	Rec	Dev.	Total	Rec	Dev.	Total	Rec	Dev.	Total		
GAPSS	340	208	548	320	207	527	94%	100%	96%	0.2%	33.3
Power Generation	2,871	8,729	11,600	2,305	7,213	9,518	80%	83%	82%	3.1%	105.5
Power Transmission and Distribution	8,389	32,536	40,925	6,674	22,451	29,125	80%	69%	71%	9.4%	92.8
Alternative Energy Technologies	89	1,646	1,735	64	1,405	1,469	72%	85%	85%	0.5%	38.4
State Department for Petroleum	**63,990**	**2,501**	**66,491**	**63,355**	**2,343**	**65,698**	**99%**	**94%**		**99%**	**21.1%**
Exploration and Distribution of Oil and Gas	69	2,483	2,552	62	2,328	2,390	90%	94%	94%	0.8%	100
Geological Survey & Geo information Management	42	18	60	32	15	47	76%	83%	78%	0.0%	-
Mineral Resources Management	211	-	211	173	-	173	82%	0%	82%	0.1%	-
GAPSS	63,668	-	63,668	63,088	-	63,088	99%	0%	99%	20.3%	100.0
GRAND TOTAL	**170,117**	**173,599**	**343,715**	**167,131**	**143,685**	**310,814**	**98%**	**83%**	**90%**	**100.0%**	

Data Source: National Treasury, SWG Report
Note: GAPSS is General Administration Planning and Support Services
KPI is Key Performance indicator

Energy, Infrastructure, And ICT Sector, the total approved budget for the sector was KShs 343,715, with actual expenditure reaching KShs 310,814, indicating an absorption rate of 90 percent while for State Department for Roads the approved budget for this department was KShs 170,745, with an actual expenditure of KShs 159,043, resulting in an absorption rate of 93 percent.

3.2.6 Analysis of Sector Allocations for FY 2024/25 and Recommendations

The total budget for the Energy Infrastructure and ICT (EII) in 2023/24 was KSh 528 billion, for current and capital expenditures. In 2024/25, the budget ceiling decreased to KSh 505 billion, indicating a 4 percent reduction in the total allocation.

Table 7: Approved estimates, 2023/24 BPS ceilings, % change in allocation and % share of the Sector Budget

Program	2022/23 Approved Budget			2022/23 Actual Expenditure			% expenditure of the total	Average KPI performance (%)	
	Current	Capital	Total	Current	Capital	Total		2023/24	2024/25
Energy, Infrastructure, And ICT Sector	**178,737**	**349,409**	**528,146**	**145,306**	**360,362**	**505,668**	**-4%**	**100%**	**100.0%**
State Department for Roads	82,845	149,844	232,689	72,197	148,257	220,454	-5%	44%	43.6%
Road Transport	82,845	149,844	232,689	72,197	148,257	220,454	-5%	44%	43.6%
State Department for Transport	14,356	43,803	58,159	16,540	44,806	61,346	5%	11%	12.1%
GAPSS	1,712	1,074	2,786	1,147	2,402	3,549	27%	1%	0.7%
Rail Transport	-	39,061	39,061	500	37,389	37,889	-3%	7%	7.5%
Marine Transport	613	1,385	1,998	601	3,000	3,601	80%	0%	0.7%

Program	2022/23 Approved Budget			2022/23 Actual Expenditure			% expenditure of the total	Average KPI performance (%)	
	Current	Capital	Total	Current	Capital	Total		2023/24	2024/25
Road Safety	2,870	1,771	4,641	2,821	1,080	3,901	-16%	1%	0.8%
State Department for Shipping and Maritime Affairs	2,514	750	3,264	2,665	1,570	4,235	30%	1%	0.8%
Shipping and Maritime Affairs	2,514	750	3,264	2,665	1,570	4,235	30%	1%	0.8%
State Department for Housing & Urban Development	1,368	79,194	80,562	1,364	80,170	81,534	1%	15%	16.1%
Housing Development and Human Settlement	883	74,069	74,952	855	70,340	71,195	-5%	14%	14.1%
Urban and Metropolitan Development	155	5,125	5,280	188	9,830	10,018	90%	1%	2.0%
GAPSS	330	-	330	321	-	321	-3%	0%	0.1%
State Department for Public Works	3,482	814	4,296	3,394	1,527	4,921	15%	1%	1.0%
Government Buildings	582	534	1,116	595	673	1,268	14%	0%	0.3%
Coastline Infrastructure and Pedestrian Access	92	152	244	96	660	756	210%	0%	0.1%
GAPSS	367	6	373	355	14	369	-1%	0%	0.1%
Regulation and Development of the Construction Industry	2,441	122	2,563	2,348	180	2,528	-1%	0%	0.5%
State Department for Information Communication Technology & Digital Economy	3,903	16,491	20,394	3,958	25,885	29,843	46%	4%	5.9%
GAPSS	304	-	305	355	-	355	17%	0%	0.1%
ICT Infrastructure Development	822	15,561	16,383	848	15,972	16,820	3%	3%	3.3%
E-Government Services	2,778	930	3,708	2,755	9,913	12,668	242%	1%	2.5%
State Department for Broadcasting & Telecommunications	6,629	526	7,155	6,296	795	7,091	-1%	1%	1.4%
GAPSS	265	-	265	342	-	342	29%	0%	0.1%
Information And Communication Services	6,116	386	6,501	5,676	545	6,221	-4%	1%	1.2%
Mass Media Skills Development	248	141	389	273	250	523	0%	0%	0.0%
Film Development Services Programme							0%	0%	0.0%
State Department for Energy	9,143	55,494	64,637	11,566	53,316	64,882	0%	12%	12.8%
GAPSS	383	175	553	409	150	559	1%	0%	0.1%
Power Generation	2,696	10,677	13,373	2,615	13,110	15,725	18%	3%	3.1%
Power Transmission and Distribution	5,991	41,759	47,750	8,451	39,501	47,952	0%	9%	9.5%
Alternative Energy Technologies	73	2,883	2,956	91	555	646	-78%	1%	0.1%
State Department for Petroleum	54,497	2,493	56,990	27,326	4,036	31,362	-45%	11%	6.2%
Exploration and Distribution of Oil and Gas	54,497	2,493	56,990	27,326	4,036	31,362	-45%	11%	6.2%

Data Source: 2024, Budget Policy Statement

What informed the notable budget allocation discrepancies across programs?

The EII sector will receive an overall budget cut of 4 percent in FY 2025, however with the budget cut there is wide variation in budget changes at the program level. While some programs including Road Safety and Regulation, Alternative Energy Technologies and Exploration & Distribution of Oil and Gas received a substantial budget cut, other programs such as Coastline Infrastructure & Pedestrian Services and E-government services received a huge incremental budget allocation of almost 2.5 times more as compared with the previous allocation in the FY 2022/23 budget.

A combination of budget cuts and targeted increases are also observed across the other programs. Programs including Rail Transport, Road Transport, Road Safety, and Information & Communication services received budget cuts; 3 programs received no budgetary increment while 2 programs received over 200 percent budget increase as compared to the 11 programs which received incremental budget allocation of between 1 percent and 90 percent. No justification has been provided with respect to the major increase for Coastline Infrastructure & Pedestrian Services, which is not among the government's priorities, while other programs are receiving substantial budget cuts. To address the challenge of budget allocation variations, the government may endeavor to evaluate the performance of each program based on performance. Programs demonstrating higher performance in KPI and alignment with strategic government objectives may justify increased budget allocations, while those underperforming in terms of KPIs may require re-evaluation of budget allocations

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Why are some of the budget allocations not aligned with government priorities?

The share for Housing Development and Human Settlement in the 2024/25 will remain the same compared to the 2022/23 budget share at 14 percent. This is despite the government target to increase the supply of new housing to 250,000 units by restructuring the affordable long-term housing finance scheme including National Housing Fund and Cooperative Social Housing Schemes. The implication of maintaining a constant resource allocation despite the change in priorities towards the housing and settlement agenda possibly will limit government in addressing housing challenges. This can have significant effects on housing development and urban informal settlers. Kenya faces a substantial annual deficit of 250,000 housing units, exacerbated by a rapid urbanization rate of 4.4 percent annually which is more than the global average of around 2.1 per cent. The government may not meet its agenda of reducing the housing gap and providing decent housing. This has been worsened by frequent court orders suspending the implementation of housing levy to fund affordable housing program which has been cited as lacking legal framework.

The government needs to make public-private partnerships (PPPs) really work to supplement budgetary allocations for Housing Development projects.

How is allocation for the General administration planning and support services (GAPSS) program under the State Department for Petroleum justifiable yet it has the lowest absorption rate?

The GAPSS program's KPI of 100 percent suggests that, in principle, it has met its predetermined goals. However, this is not reflected in the utilization of the allocated funds as it posted an absorption rate of 33.3 percent. This relatively low absorption rate implies that a considerable portion of the allocated budget remained unutilized.

There is a need to strengthen fiscal management by cutting down unnecessary expenditure across the GAPSS program and strengthening budget execution by providing training and capacity-building initiatives to staff members responsible for financial management to enhance their skills and knowledge in budget utilization and reporting.

Why is the E-Government Services sector receiving a substantial budget, yet the subsector has continuously faced challenges in implementing its budget?

E-Government services in Kenya are provided through various online platforms and portals that simplify access to government services from different Ministries, Departments, and Agencies. These E-Government services aim to streamline government operations, improve accessibility, and enhance transparency in the delivery of public services by onboarding more than five thousand governments into digital platforms. In the FY 2024/25 the sector will receive a budget allocation of Ksh 12 billion up from 3 billion which represents a 2.5 percent of the sectoral budget share. Despite the substantive allocations the subsector still faces a myriad of challenges. For instance, the construction of 1,450 ICT hubs across all the wards in the country, which was planned to begin in 2024, faced delays in implementation. These delays hinder the prompt delivery of essential government services, affecting the efficiency and effectiveness of E-Government initiatives.

The government can re-channel resources towards the E-Government Services program to improve security of technology systems and installation of public Wi-Fi hotspots for the Digital Superhighway since they are among government priority areas; modernization and upgrading of technology infrastructure within the E-Government Services program. These resources can then be allocated to support initiatives like the Huduma Kenya program, which entails the establishment and operation of Huduma Centers at sub-county levels.

3.3 Health Sector

3.3.1 Overview

The sector has had several changes over the past few years that have directly impacted budgeting within the sector. The introduction of the State Department for Public Health and Professional Standards (SDPHPS) has resulted in overlapping programs and frequent reassignments of roles with the State Department of Medical Services.

In FY 2022/23, both state departments had the same programs: Preventive, Promotive and Reproductive, Maternal, Newborn, Child, and Adolescent Health (RMNCAH), Health Research and Development, General Administration and Health Policy, Standards and Regulations. The only unique program was the National Referral and Specialized Services under the State Department of Medical Services (SDMS). This however changed in FY 2023/24, with the SDPHPS now in charge of:

i) Preventive and Promotive Health Services
ii) Human Resources Development and Innovation
iii) Health Policy Standards and Regulations
iv) General Administration

The SDMS oversees the following programs:

i) National Referral and Specialized Services
ii) Curative and Reproductive Maternal Newborn Child Adolescent Health RMNCAH
iii) Health Research and Innovations
iv) General Administration.

The new structure creates redundancy between the SDPHPS and SDMS programs. Specifically, the Curative and Reproductive Maternal Neonatal Child & Adolescent Health (RMNCAH) program under SDMS significantly overlaps with the Preventive and Promotive Health Service program under SDPHPS. Both programs include subprograms like Communicable Disease Control, and many RMNCAH activities inherently fall under preventive care. This duplication within SDMS creates confusion and leads to inefficient use of limited resources. Consolidating these programs under SDPHPS would streamline service delivery and optimize resource allocation.

In FY 2023/24, the overall health sector was allocated Ksh. 141 billion, of which SDMS received 83 percent. The remaining 17 percent went to the SDPHPS. The overall health sector allocation was cut by 2 percent in Supplementary Budget I. This reduction disproportionately impacted the SDMS, whose budget decreased 15 percent while the SDPHPS allocation increased by 5 percent. While the SDPHPS received a budget increase, its poor absorption rate of 38 percent in FY 2022/23 casts doubts on its ability to effectively utilize the funds.

3.3.2 Sector Priorities in the 2024 BPS

Ensure Universal Health Coverage (UHC) through

1. Universal Social Health Insurance cover
2. Fully publicly financed primary healthcare
3. National fund for emergency, chronic and critical illness funded by a combination of insurance levy and Government.
4. Enhanced prevention and promotion of health through community involvement and ownership to reduce disease burden due to preventable causes.

5. Strategic recruitment, management, and retention of Human Resources for Health for enhanced quality health care.
6. Strengthened governance and administration of health services, quality health standards and regulations.

3.3.3 Key Messages for FY 2024/25

- Increased allocation for health (SDPHPS) in FY 2022/23 wasn't effectively used due to low absorption rate (38 percent).
- Slow government response to previous Shadow Budget concerns regarding budget execution, low spending in priority areas, and rising pending bills.
- Development budget for health underspent compared to recurrent budget (70 percent vs 94 percent absorption rate).
- Huge disparity in program spending in the two state departments. SDMS (93 percent recurrent, 56 percent development) and SDPHPS (34 percent recurrent, 0 percent development) in FY 2022/23
- Budget changes suggest a move towards preventive and primary healthcare, with increased funding for Community Health Programs (CHPs)
- Decline in donor funding for health programs (TB, Malaria, Family Planning, Nutrition, Immunization) despite stagnant government budgets in these areas.

3.3.4 Previously Raised and Persistent Budget Issues

The previous Shadow Budget identified several troubling trends in the sector's budget performance. This resulted in key questions centering around the poor execution of the development budget, low absorptions in priority areas, low overall health allocations and the increasing pending bills within the sector. While there were increased allocations to health in FY 2023/24, the other concerns raised remain largely unresolved.

The development budget remained underspent in FY 2022/23 in comparison to the recurrent budget. This is concerning as it shows that less money is being spent on critical areas such as health infrastructure construction as well as acquisition of equipment. The absorption rate for the development budget was 70 percent compared to the recurrent budget's 94 percent (refer to Table 10). Nonetheless, there was a slight improvement in the budget performance from FY 2021/22 to FY 2022/23 as the overall budget absorption increased slightly from 84 percent to 85 percent. Recurrent budget absorption decreased from 100 percent to 94 percent, while development budget absorption increased from 68 percent to 70 percent. Some of the reasons highlighted for budget underperformance include unavailability or late disbursement of budgeted funds, at times released near the end of the financial year, from both development partners and the Kenyan government.

The absorption rate for the Preventive and Promotive Health program, a key focus area in the attainment of Universal Health Coverage (UHC), remains low. In FY 2022/23, the Preventive and Promotive program was split into two, with one part under the SDMS and the other under the SDPHPS. The two state departments had similar sub-programs under the Preventive and Promotive Health Services program whose allocations and expenditures were as shown in Table 8.

The Preventive and Promotive Health program under the SDMS had an overall absorption rate of 60 percent, with a breakdown of 93 percent for recurrent and 56 percent for development. The program under the SDPHPS had an absorption rate of 5 percent, with 34 percent for recurrent costs and 0 percent for development budget utilization.

The Reproductive Maternal Neo-natal Child & Adolescent Health (RMCAH) sub-program performed the worst in the program under the SDMS with a budget absorption rate of 42 percent. Under the SDPHPS, it had an even lower absorption rate of 3 percent. Other programs under the SDPHPS performed equally badly, such as Disease Surveillance and Response and Communicable Disease Control, which had absorption rates of 0 percent and 4 percent, respectively.

The lack of development budget absorption spanned across all programs within the SDPHPS. The Office of the Controller of Budget (OCOB) report for FY 2022/23 indicates that there were no exchequer releases for development purposes to the state department. There are no justifications provided for the lack of disbursements to the SDPHPS specifically.

Table 8: Budget Performance of the Preventive and Promotive Health Services Program in FY 2022/23

Sub-Program	State Department of Medical Services			State Department of Public Health and Professional Standards		
	Approved Budget *(Ksh. Millions)*	Actual Expenditure *(Ksh. Millions)*	Budget Absorption	Approved Budget *(Ksh. Millions)*	Actual Expenditure *(Ksh. Millions)*	Budget Absorption
Non-Communicable Disease Prevention and Control	670	529	79%	1.8	0.6	33%
RMNCAH	7,155	3,040	42%	975	26	3%
Radiation Protection	191	108	57%	64	36	56%
Communicable Disease Control	7,140	5,019	70%	1,350	52	4%
Disease Surveillance and Response	4,684	2,989	64%	100	-	0%
Environmental Health	500	463	93%	32	11	34%
Total	**20,340**	**12,148**	**60%**	**2,522.8**	**125.6**	**5%**

Data Source: National Treasury, SWG Report

The health sector is still grappling with an increasing burden of pending bills. The pending bills increased from Ksh. 67 billion in FY 2021/22 to KSh.70 billion in FY 2022/23. The newly established SDPHPS has pending bills of nearly Ksh. 3 billion, which are old pending bills held by the Semi-Autonomous Government Agencies (SAGAs) now under its control. The pending bills are attributed to lack of exchequer releases for development, whose nature is categorized as 'others' in the Health Sector report. This vague categorization of 'others' raises concerns regarding transparency and the specific nature of the activities from which the bills arise.

Moreover, there are discrepancies in the reporting of pending bills figures. For example, the aggregate figure for the SDPHPS is provided as Ksh. 2.5 billion. However, in the pending bills by SAGA analysis, Kenya Medical Technical College (KMTC), one of the SAGAs under the SDPHPS, has a cumulative total of Ksh. 3.2 billion, a higher amount than the overall figure for the state department. This inconsistency casts doubts on the accuracy of the reported figures.

For the SDMS, 98 percent of the pending bills in FY 2022/23 were attributed to the absence of budget provisions for court awards. It is unclear why there are no provisions for these awards, despite the compounding interest of 2 percent per month on these awards, which significantly inflates the final pay-out. Notably, the two largest outstanding awards date back to 1995 and 1999 at Ksh 18 billion and Ksh 15 billion respectively. The continued accumulation of the number of court awards, with the most recent being in October 2021, suggests the existence of systemic issues in the contracting practices, dispute resolution or overall financial management that need to be addressed.

3.3.5 Analysis of Sector Allocations for FY 2024/25 and Recommendations

This section explores budget performance and trends observed within the sector, and how this impacts efficiencies, effectiveness and transparency in health budgets, particularly for the proposals for FY 2024/25. The key questions raised here are categorized based on the current primary areas of concern within the health sector. These are: Primary Health Care (PHC), Universal Health Coverage (UHC), donor funding and mental health.

i) Primary Health Care (PHC)

What are the underlying factors driving the frequent re-organizations of Kenya's health sector departments, particularly regarding their roles and responsibilities?

Over the past two financial years, the health sector has experienced significant changes in its programs structure. In FY 2022/23, the SDPHPS was introduced, and its budget allocated through the FY 2022/23 Supplementary Budget I. The programs under the SDPHPS were similar to those of the SDMS, with the exception of the National Referral Services program, which remained in the purview of the SDMS. The overlaps began at the programs level and extended to sub-programs and KPIs. When programs are duplicated across state departments, government prioritization decisions become unclear. This is because budget cuts or increases could simply be transfers between similar programs, thus obscuring the true impact of budgetary adjustments.

In FY 2023/24, the programs under the two state departments were restructured. The SDPHS now oversees implementation of four programs: Preventive and Promotive Health Services, Human Resources Development and Innovation, Health, Policy Standards and Regulations as well as General Administration. The SDMS, on the other hand, now focuses on National Referral and Specialized Services, Curative and Reproductive Maternal Newborn Child Adolescent Health (RMNCAH), Health Research and Innovations and General Administration.

While these changes establish a clearer division of responsibilities, the frequent reorganizations in the departments' mandates (now done thrice-once in 2022 and twice in 2023) is concerning. Effective program-based budgeting requires a clear mapping of programs and assignment of roles to the different organizational units for effective performance accountability. The constant redefinition of departmental mandates and program ownership undermines this. An example of this is the performance analysis of capital projects in the Sector Working Group Report. Projects transferred from the SDMS to the SDPHPS lack explanations for their performance outcomes in the remarks section. The SDMS simply states that 'the project was moved to the State Department of Public Health and Professional Standards' while the SDPHPS, provides no explanation for any of its capital project performance, including those that they received.

The lack of clear justifications for these frequent changes also raises concerns regarding the government's clarity in achieving its objectives. It prompts questions on whether the government is struggling to identify the most effective way to attain its goals or lacks clarity on the departmental capabilities to implement specific programs. This constant reshuffling suggests that the government lacks a cohesive strategy for the sector and might be experimenting with different approaches.

Recommendation: The Executive Office of the President should adopt a more strategic approach to restructuring. While restructuring may not be avoided entirely, it can be done with careful planning, considering well-defined and long-term goals, rather than ad hoc. This will help in ensuring that there are no overlaps and that they are not revised too regularly.

Why was the program in the SDPHPS renamed from "Preventive, Promotive and RMNCAH" to "Curative and RMNCAH", despite most of its services being preventive and promotive in nature?

In the FY 2023/24 budget, the Preventive, Promotive and RMNCAH program in the SDMS was replaced by the Curative and RMNCAH program, while the program under the SDPHPS has been retained. However, despite this change, the outputs of the newly introduced curative program in the PBB FY 2023/24, are categorized as preventive and promotive health services. This inconsistency, along with the inherently preventive and promotive nature of most RMNCAH initiatives like immunization, raises questions regarding the rationale behind the program's renaming. Program-Based Budgeting is designed to link budget allocations to clearly defined program objectives. When the program names and outputs contradict, as they do here, it becomes difficult to clearly understand what the program is trying to achieve.

ii) Universal Health Coverage (UHC)

How does the government plan to continue financing the competing goals of expanding social health insurance coverage and remunerating Community Health Promoters (CHPs) within a shrinking fiscal space?

The revised health budget for FY 2023/24 reveals the government's challenging task of balancing two crucial commitments: supporting Community Health Promoters (CHPs) and ensuring universal social health insurance coverage. The Social Protection in Health sub-program under the General Administration program in the SDMS, had a budget cut of 9 percent in the Supplementary Budget I. In contrast, the UHC Coverage Coordination Unit, which directly supports CHPs, had a minimal cut of 0.2 percent. While each of the units responsible for delivering on these commitments experienced cuts, the budget cut choices suggest a prioritization of CHPs over provision of social insurance.

Funding for the Emergency Medical Treatment Fund was reduced by 67 percent of its initial budget, accounting for 90 percent of the total budget cut to the sub-program. The Rollout of UHC received a 16 percent cut, accounting for close to 10 percent of the sub-program cut.

The budgetary changes necessitated the revisions of its targets, further revealing the balancing act at play. To meet its commitment to CHPs, the government increased the target for the number of CHPs supported with stipends from 44,444 to 100,000 persons. This, coupled with the slight decrease in the UHC Coverage Coordination Unit's budget suggests that resources were shifted within the unit itself to accommodate the increased financial requirements for CHPs. However, this came at the expense of targets under the other two units within the sub-program. The target number of indigents accessing social health insurance was reduced from 2 million to 1 million. For the Emergency Medical Treatment Fund, the target for the percentage of financial support provided was significantly reduced from 100 percent to 35 percent. These budgetary changes (decrease in funding for curative services, significant increase in CHPs supported with stipends) indicate an increased focus towards preventive and primary healthcare.

iii) Donor Funding

How will the government ensure the long-term sustainability of critical programs beyond the transition from donor dependence?

Donor funding towards health has been declining, raising significant concerns about financing for programs heavily reliant on external support. These programs include TB, Malaria, Family Planning, Nutrition, and Immunization. Despite the decline in donor support, budgetary allocations towards these programs have seen minimal to no increases. This is particularly concerning for programs already grappling with poor health outcomes.

Kenya ranks among the 30 countries globally with the highest TB burden, having a TB prevalence of 558 per 100,000 adults. Despite this, the fight against TB faces a looming crisis due to potential funding shortfalls as Global Fund, the leading donor for TB programs, plans to exit the country. This exit, coupled with a lack of corresponding increases in domestic funding for TB, threatens to undermine progress.

Over the past five financial years, domestically financed procurement of anti-TB drugs has fluctuated between Ksh. 100 million and Ksh. 200 million. These allocations have been insufficient in filling the gaps left by declining donor support. For example, in FY 2022/23, funding from Global Fund's New Funding Model (NFM III), decreased by 21 percent from FY 2021/22. This decrease was not offset by increased domestic allocation, as it also decreased by 23 percent.

In FY 2022/23, the Ministry of Health set a target of 99,000 for the number of TB cases notified. However, the achieved target fell short, with only 88,000 cases being notified. This shortfall was attributed to an erratic supply of TB diagnostic commodities due to insufficient budgetary allocation. The Supplementary Budget I FY 2022/23 points to a 25 percent decrease in the allocations set aside for procurement of anti-TB drugs and commodities that are not covered by the Global Fund. This funding cut, alongside the decline in external funding likely explains the erratic supply of specific TB commodities.

Table 9: Domestic vs On-Budget External Financing for TB

Ksh. Millions	2018/19	2019/20	2020/21	2021/22	2022/23
Domestic Financing	155	100.75	200	200	154.5
External Financing	1,309	859.85	578	1,062.9	874.4
Special Global Fund TB Grant KEN-T-TNT	1,309	859.85	578	2.23	
Special Global Fund – TB NFM 3				1,060.67	874.4

Note: The Special Global Fund- TB NFM III is a 3-year grant that started on 1st July 2021, and is expected to come to an end on 30th June 2024

Without adequate support from donors, these health initiatives face significant challenges in meeting their objectives. However, despite this reality, the government's plan to transition the financing of these projects from donor assistance to domestic revenue remains unclear. This raises concerns about the sustainability of these health initiatives and poses a potential risk to the gains made over the years.

Recommendation: The Ministry of Health and the National Treasury should collaborate to develop a transparent and comprehensive plan for alternative financing sources for health programs undergoing transition from donor funding. This includes exploring innovative financing options, such as public-private partnerships. The plan should include realistic timelines for achieving self-sufficiency for each program, considering their specific needs and potential funding sources.

iv) Mental Health

Considering the insufficient budget allocation and the absence of disbursements to the Kenya Board of Mental Health in FY 2022/23, what strategies does the government intend to implement to guarantee that the board and other mental health programs receive adequate funding to attain their objectives in the future?

The National Mental Health Action Plan 2021-2025 outlines the need to address the chronic underfunding of mental health services, which currently receive only 0.01 percent of the health budget. This underfunding leads to a failure to achieve key targets set for critical entities such as the Kenya Board of Mental Health. The board, established in August 2022, faced significant challenges in fulfilling its objectives for FY 2022/23. These objectives were: inspecting mental health units and facilities across the country and producing a comprehensive report on the state of mental health. Despite receiving a modest budget allocation of Ksh. 1.7 million, the board received no exchequer releases throughout the year, resulting in no expenditures. Ultimately, none of its goals were met.

Recommendation: The government should consider alternative and innovative financing options for mental health such as Social Impact Bonds (SIBs). Unlike other funding models, SIBs would link investor returns to the success of the mental health programs. The government would repay the investors once the program attains its predetermined targets.

Why aren't all KPIs and activities related to mental health, classified under a clearly defined mental health program/sub-program?

There appears to be discrepancies in the reporting of budget allocations and expenditures for mental health. According to the Health Sector Working Group Report, there was a Mental Health sub-program under the National Referral and Specialized Services, which was allocated Ksh, 125 million and incurred expenditures totaling Ksh. 111 million, reflecting an absorption rate of 88 percent in FY 2022/23. However, it is difficult to establish what these expenditures were for as there are no KPIs listed for this sub-program. The sub-program also appears only in the health sector report, and not in the PBB for FY 2022/23. Currently, the Mental Health Unit and Kenya Board of Mental Health, have their KPIs listed under the Non-Communicable Diseases sub-program in the Preventive and Promotive Health Services program. This inconsistency poses challenges in tracking resources and assessing the efficiency of mental health spending.

Table 10: Budget Outturn for FY 2022/23

Sector/Vote/Program Details	Approved Budget (Ksh billion)			Actual Expenditure (Ksh billion)			Absorption Rate		
	Rec	Dev.	Total	Rec	Dev.	Total	Rec	Dev.	Total
HEALTH	**72,070**	**44,327**	**116,397**	**67,601**	**31,057**	**98,658**	**94%**	**70%**	**85%**
State Department for Medical Services	**69,195**	**41,990**	**111,185**	**65,620**	**31,057**	**96,677**	**95%**	**74%**	**87%**
Preventive and Promotive Health Services including RMNCAH	2,001	18,339	20,340	1,854	10,294	12,148	93%	56%	60%
National Referral and specialized Services	41,471	9,351	50,822	41,011	7,115	48,126	99%	76%	95%
Health Research and Development	8,688	1,328	10,016	6,679	1,228	7,907	77%	92%	79%
GAPSS	8,824	1,262	10,086	8,262	852	9,114	94%	68%	90%
Health Policy, Standards and Regulations	8,211	11,710	19,921	7,814	11,568	19,382	95%	99%	97%
State Department for Public Health and Professional Standard	**2,875**	**2,337**	**5,212**	**1,981**	**0**	**1,981**	**69%**	**0%**	**38%**
Preventive & Promotive Health Services	374	2,148	2,522	126	0	126	34%	0%	5%
Health Research and Development	1,990	189	2,179	1,391	0	1,391	70%	0%	64%
GAPSS	480	0	480	444	0	444	93%		93%
Health Policy, Standards and Regulations	31	0	31	20	0	20	65%		65%

Data Source: National Treasury, SWG Report

Table 11: Proposed budget for FY 2024/25

Sector/Vote/Program Details	Approved Estimates 2023/24			2024/25 BPS Ceilings			% change in allocation	% Share of the Sector Budget	
	Current	Capital	Total	Current	Capital	Total		2023/24	2024/25
HEALTH	**88,191,2**	**50,654.6**	**138,845.9**	**87,325.1**	**60,274.7**	**147,599.8**	**6%**	**100%**	**100%**
State Department for Medical Services	**66,394.3**	**44,245.2**	**110,639.5**	**66,833.9**	**55,113.2**	**121,947.1**	**10%**	**80%**	**83%**
National Referral & Specialized Services	50,243.2	10,714.4	60,957.6	49,636.9	16,591.3	66,228.2	9%	44%	45%
Curative & Reproductive Maternal Newborn Child Adolescent Health RMNCAH	1,351.2	18,502.8	19,854.0	1,388.2	21,508.7	22,896.9	15%	14%	16%
Health Research and Innovations	3,457.0	1,080.0	4,537.0	3,457.0	1,337.0	4,794.0	6%	3%	3%
General Administration	11,342.9	13,948.0	25,290.9	12,351.3	15,676.2	28,028.0	11%	18%	19%
State Department for Public Health and Professional Standard	**21,797.0**	**6,409.4**	**28,206.3**	**20,491.1**	**5,161.5**	**25,652.6**	**-9%**	**20%**	**17%**
Preventive and Promotive Health Services	1,669.8	4,479.1	6,143.9	1,158.0	4,251.0	5,409.0	-12%	4%	4%
Health Resources Development and Innovation	15,782.1	1,680.3	17,462.4	13,481.6	785.5	14,267.1	-18%	13%	10%
Health Policy, Standards and Regulations	3,800.5	250.0	4,050.5	5,080.5	75.0	5,155.5	27%	3%	3%
General Administration	544.6	-	544.6	771.0	50.0	821.0	51%	0%	1%

Data Source: 2024 Budget Policy Statement

Recommendation: The MOH should establish a clearly defined Mental Health sub-program within the health budget, inclusive of all mental health-related initiatives, units, and boards. This will ease tracking of resource allocations and help identify areas that require increased funding to address gaps in mental health services

3.4 Public Administration And International Relations (PAIR) Sector

3.4.1 Overview

The sector has been identified by government in the BPS 2024 as one of the enablers of the Bottom-Up Economic Transformation Agenda by promoting resilience and sustainability of Kenya's financial sector, enhancing productivity and augmenting domestic resource mobilization. This has informed the increased budgetary allocation to the Sector and State Departments and Agencies implementing these functions as shown in Table 12.

3.4.2 Key messages

1. **The PAIR sector should enhance key performance indicator target setting to improve budget absorption.** The sector has experienced declining budget absorption, especially the development budget, and the programs posting the lowest development budget absorption have not reported the performance of their KPIs or have reported only administrative input indications, e.g. number of meetings, reports etc.
2. The PAIR sector should address the issue of pending bills without provision that has increased threefold. These are pending bills that have not been factored in the subsequent budgets after the year they were incurred and are unlikely to be settled. This can negatively impact on personnel, suppliers and contractors who will have to wait very long periods before their dues are settled.

3.4.3 Previously Raised and Persistent Budget Issues

Budget underspending, particularly development budgets, remains a challenge.

This sector's budget execution rates are falling. The sector absorbed less in FY 20223/23 compared to the previous period: 82 percent absorption in FY 2022/23, compared to 87 percent in FY 2021/22. Development budget absorption is at 76 percent as compared to 82 percent earlier.

In the budget documents, the National Treasury has still not put in place any system to fast-track completion of projects.

The sector had posted low capital projects completion rate for the FY 2021/22 with the completion of only 18 of the targeted 172 capital projects implemented by the various sub-sectors. Similarly, this is still the case in the FY 2022/23. The sector has only completed 18 out of 172 projects that are currently being implemented. The Sector Working Group Report has provided completion dates for some of the ongoing projects ranging from the FY 2024/25 to FY 2027/28 as well as the budgetary requirements to complete them. However, there are some ongoing projects in the National Treasury, State House, Auditor General and State Department for Foreign Services that do not have start and completion dates and have only been labeled as ongoing. It is important that completion dates are provided to enable effective tracking.

It remains unclear why the National Treasury has indicators and budget allocations for TB services, yet this is not delivered under this agency.

This is still the case. There are KPIs on percentage of TB patients treated, number of ITNs distributed etc. These are attributed to special Global Fund that are budgeted under the National Treasury despite these functions being suited for the Ministry of Health. Treasury explained that these indicators are captured under the National Treasury because they are the principal recipients of the Global Fund grants and has appointed the Ministry of Health to implement the grants on their behalf and Kenya Medical Supplies Agencies as their procurement agent.

Table 12: PAIR sector FY 2022/23 approved budget, actual expenditure and KPI performance

Sector/Vote/Programme Details	2022/23 Approved Budget			2022/23 Actual Expenditure			Absorption Rate			KPI Performance
	Rec	Dev.	Total	Rec	Dev.	Total	Rec	Dev.	Total	
Executive office of the president	**27,229**	**7,815**	**33,963**	**20,144**	**1,594**	**21,738**	**74%**	**20%**	**64%**	**92%**
State House Affairs	11,032	943	11,976	9,680	744	10,424	88%	79%	87%	100%
Deputy President Services	**2,568**	**16**	**1,503**	**2,449**	**14**	**2,463**	**95%**	**88%**	**164%**	-
Cabinet Affairs	2,185	167	2,352	1,961	160	2,121	90%	96%	90%	88%
Government Advisory Services	518	25	543	486	-	486	94%	0%	90%	87%
Nairobi Metropolitan Services	10,926	6,664	17,590	5,568	676	6,244	51%	10%	35%	-
Office of the Deputy President	**1,017**	**-**	**1,017**	**928**	**-**	**928**	**91%**	**-**	**91%**	**93%**
Deputy President Services	1,017	-	1,017	928	-	928	91%	-	91%	93%
Office of the Prime Cabinet Secretary	**853**	**-**	**853**	**661**	**-**	**661**	**77%**		**77%**	**82%**
GAPSS	761	-	761	609	-	609	80%	-	80%	96%
Public Service Performance Management & Delivery Services	34	-	34	16	-	16	47%	-	47%	84%
Government Coordination and Supervision	58	-	58	36	-	36	62%	-	62%	67%
State department of devolution	**1,580**	**227**	**1,808**	**1,552**	**113**	**1,665**	**98%**	**50%**	**92%**	**90%**
Devolution Support Services	283	227	511	259	113	372	91%	50%	73%	-
Management of Intergovernmental Relations	951	-	951	949	-	949	100%	-	100%	100%
Administration Support Services	346	-	346	344	-	344	99%	-	99%	80%
Special Initiative	-	-	-	-	-	-		-		-
Ministry of Foreign Affairs	**14,289**	**1,097**	**15,386**	**14,155**	**1,087**	**15,243**	**99%**	**99%**	**99%**	**72%**
GAPSS	2,560	14	2,574	2,462	3	2,465	96%	24%	96%	-
Management of Kenya missions (added)	11,584	1,073	12,657	11,556	1,070	12,626	100%	100%	100%	-
Foreign Relation and Diplomacy							-	-	-	72%
Economic Cooperation and Commercial Diplomacy	39	-	39	38	-	38	98%	-	98%	-

Sector/Vote/Programme Details	2022/23 Approved Budget			2022/23 Actual Expenditure			Absorption Rate			KPI Performance
	Rec	Dev.	Total	Rec	Dev.	Total	Rec	Dev.	Total	
Foreign Policy Research, Capacity Development and Technical Cooperation	106	10	116	100	14	114	94%	140%	98%	-
State department of foreign affairs (added)	**5,383**	-	**5,383**	**5,278**	-	**5,278**	**98%**	-	**98%**	**69%**
GAPSS	1,010	-	1,010	927	-	927	92%	-	92%	95%
Management of Kenya missions abroad	4,328	-	4,328	4,311	-	4,311	100%	-	100%	-
Economic Cooperation and Commercial Diplomacy	11	-	11	9	-	9	82%	-	82%	50%
Foreign Policy Research, Capacity Development and Technical Cooperation	34	-	34	32	-	32	94%	-	94%	62%
State Department for Diaspora Affairs (added)	**658**	-	**658**	**383**	-	**383**	**58%**	-	**58%**	**90%**
Management of Diaspora and Consular Affairs	658	-	658	383	-	383	58%	-	58%	90%
The National Treasury	**61,606**	**85,957**	**147,563**	**52,099**	**58,111**	**110,210**	**85%**	**68%**	**75%**	**86%**
GAPSS	52,911	13,309	66,220	44,841	6,789	51,630	85%	51%	78%	73%
Public Financial Management	6,842	31,251	38,093	5,633	20,737	26,370	82%	66%	69%	79%
Economic and Financial Policy Formulation and Management	1,138	2,799	3,937	955	1,981	2,936	84%	71%	75%	-
Market Competition and Creation of an Enabling Business Environment	668	40	708	668	15	683	100%	38%	96%	91%
Government Clearing Services	47	-	47	2	-	2	4%		4%	100%
Rail Transport	-	38,458	38,458	-	28,589	28,589	-	74%	74%	-
Marine Transport	-	100	100	-	-	-	-	0%	0%	-
State Department for Economic Planning	**3,810**	**47,572**	**51,382**	**3,668**	**47,420**	**51,088**	**96%**	**100%**	**99%**	**66%**
Economic Policy and National Planning	2,027	47,406	49,433	1,969	47,344	49,313	97%	100%	100%	85%
National Statistical Information Services	1,395	127	1,522	1,324	47	1,371	95%	37%	90%	50%
Monitoring and Evaluation Services	113	39	152	103	29	132	91%	74%	87%	-
Public Investment Management Monitoring and Evaluation (removed)										40%
GAPSS	275	-	275	272	-	272	99%		99%	87%
State Department for Public Service	3,181	303	23,484	20,634	215	20,848	89%			81%

Sector/Vote/Programme Details	2022/23 Approved Budget			2022/23 Actual Expenditure			Absorption Rate			KPI Performance
	Rec	Dev.	Total	Rec	Dev.	Total	Rec	Dev.	Total	
Public Service Transformation	9,243	268	9,511	8,903	197	9,100	96%	74%	96%	52%
GAPSS	484	6	491	417	-	417	86%	0%	85%	92%
National Youth Service	12,913	29	12,942	10,777	18	10,795	83%	61%	83%	97%
Commission on Revenue Allocation	541	-	541	536	-	536	99%	-	99%	83%
Government Clearing Services (removed)	-	-	-	-	-	-	-	-	-	-
Rail Transport (removed)	-	-	-	-	-	-	-	-	-	-
Marine Transport (removed)	-	-	-	-	-	-	-	-	-	-
Public Service Commission	**2,452**	**26**	**2,479**	**2,359**	**20**	**2,379**	**96%**	**78%**	**96%**	**100%**
GAPSS	906	26	932	875	20	895	97%	78%	96%	100%
Human Resource Management & Development	1,357	-	1,357	1,309	-	1,309	96%	-	96%	-
Governance and National Values	140	-	140	133	-	133	95%	-	95%	100%
Performance and Productivity Management	50	-	50	43	-	43	85%	-	85%	-
Salaries and Remuneration Commission	**505**	**-**	**505**	**499**	**-**	**499**	**99%**	**-**	**99%**	**91%**
Salaries and Remuneration Management	505	-	505	499	-	499	99%	-	99%	91%
Office of the Auditor General	**6,504**	**29**	**6,533**	**6,185**	**2**	**6,188**	**95%**	**8%**	**95%**	**81%**
Audit Services	6,504	29	6,533	6,185	2	6,188	95%	8%	95%	81%
Office of the Controller of Budget	**620**	**-**	**620**	**597**	**-**	**597**	**96%**	**-**	**96%**	**86%**
Control and Management of Public Finances	620	-	620	597	-	597	96%	-	96%	86%
Commission on Administrative Justice	**558**	**20**	**578**	**550**	**19**	**569**	**99%**	**96%**	**98%**	**69%**
Promotion of Administrative Justice	558	20	578	550	19	569	99%	96%	98%	69%
GRAND TOTAL	**150,247**	**143,046**	**292,212**	**129,691**	**108,581**	**238,272**	**86%**	**76%**	**82%**	**83%**

Data Source: National Treasury, SWG

3.4.4 Review of Financial and Non-financial Performance in FY 2022/23

Why is the sector's budget absorption continuing to decline?

In the FY 2022/23, the PAIR sector spent 82 percent of the allocated resources. Recurrent absorption was 86 percent, while development spending was 76 percent as shown in Table 12. The sector performed poorly when compared to the previous financial year, FY 2021/22, where overall absorption was 87 percent and recurrent and development votes absorption was 94 percent and 82 percent respectively.

Additionally, a review of the development budget performance by program reveals huge discrepancies i.e. while some programs e.g. Foreign Policy Research, Capacity Development and Technical Cooperation in the Ministry of Foreign Affairs and Economic Policy and National Planning in the State Department of Economic Planning have posted absorption rates of 140 percent and 100 percent respectively, others e.g. Government Advisory Services and Nairobi Metropolitan Services in the Executive Office of the President and Audit Services in the Office of the Auditor General have posted 0 percent, 10 percent and 8 percent respectively.

A further review of the Sector Working Group Report to determine the challenges encountered by these programs that may have contributed to the low development budget absorption has revealed that these programs have either not reported any targets and achievement of key performance indicators for the FY 2022/23 e.g. Nairobi Metropolitan Area or have only reported performance indicators that are closely related to the daily administrative work e.g. in the Government Advisory Services program where the indicators reported include number of officials trained, percentage of State Corporation advisories developed, number of State Corporation Boards evaluated etc. Coincidentally, this is not only isolated to these programs but is also observed in other programs that have slightly higher absorption rates e.g. Market Competition and Creation of Enabling Business Environment program under National Treasury that posted an absorption rate of 38 percent and reported percentage of consumer complaints investigated, percentage of mergers and acquisition applications determined, percentage cases of restrictive trade practices investigated etc. as their key performance indicators. From the provided KPIs, it is difficult to establish the capital projects undertaken within the program, their progress and why they could not utilize their development budget.

Why does the sector have pending bills without provisions that have been increasing year on year?

Pending bills for the PAIR sector have increased fourfold from Kshs. 6.3 billion in FY 2020/21 to Kshs. 25.9 billion in FY 2022/23. The Executive Office of the President alone has been responsible for 52 percent of these pending bills owing Kshs. 13.5 billion in recurrent and development expenditure to various individuals and entities. Table 13 provides a breakdown of the pending bills over the last three financial years.

The sector has identified delayed exchequer disbursement and late procurement of goods, works and services to have contributed to the rising pending

Table 13: Summary of pending bills – PAIR sector

Type	Due to Lack of Exchequer			Due to Lack of Provisions			Total		
	FY 2020/21	FY 2021/22	FY 2022/23	FY 2020/21	FY 2021/22	FY 2022/23	FY 2020/21	FY 2021/22	FY 2022/23
Recurrent	1,826.6	12,053.2	13,840.3	689.9	3,160.6	3,048.1	2,516.5	15,213.8	16,888.4
Development	2,913.3	7,284.0	6,759.7	917.5	511.8	2,310.6	3,830.8	7,795.8	9,070.3
Total	**4,739.9**	**19,337.2**	**20,600.0**	**1,607.4**	**3,672.4**	**5,358.7**	**6,347.3**	**23,009.6**	**25,958.7**

Data Source: PAIR SWG Report 2024

bills. Interestingly though, "pending bills as a result of lack of provision" (pending bills that do not have a corresponding budget that can be carried forward to the subsequent financial years hence is not budgeted for and cannot be settled) have also increased threefold from Kshs. 1.6 billion in FY 2020/21 to Kshs. 5.4 billion in FY 2022/23. This is despite the sector report pointing out that administrative measures have been put in place to interrogate pending bills and verify them for payment as a first charge in the subsequent financial years. However, the key question is how the sector has accumulated pending bills without provisions. Ideally, resources that could not be utilized within a financial year are carried forward into the subsequent year as budget balance. This together with the allocated resources for the year form the resource envelope for the sector. Therefore, the existence of pending bills due to lack of provisions means that the sector may have made commitments beyond the available budget, and these extra commitments have not been factored in the subsequent budget thereby jeopardizing their settlement.

Should the growth trends of pending bills experienced over the last three financial years be observed over the medium term, pending bills will pose significant challenges to the management of budgets in the PAIR sector. For the existing pending bills, the sector should develop a payment plan to clear them over the medium term. They represent approximately 7 percent of the sector's budget for the FY 2024/25. For a start, the sector should freeze the commencement of any new capital project to prioritize clearance of the existing development budget pending bills. The recurrent budget pending bills can be staggered over the next three financial years giving priority to pending social benefits. This is because the sector has a huge wage bill as well as transfers to Autonomous and Semi-Autonomous Government Agencies hence may affect service delivery if the recurrent pending bills were to be factored into the budget and settled in one installment. The expenditure on wage bill and transfers to government agencies accounted for 81 percent of the allocated recurrent budget for the FY 2024/25 in the Sector Working Group Report. Going forward, any new pending bill should be treated as a first charge in the subsequent budget year and settled before the end of that financial year.

3.4.5 Analysis of SectorBudget Allocations for FY 2024/25 and Priorities

During an era of fiscal consolidation, budgetary allocation to the sector has increased by 17 percent in the FY 2024/25. The development budget has increased even faster by 26 percent than the recurrent budget allocation of 12 percent in FY 2024/25.

Except for the Public Service Commission, State House and State Department for Diaspora Affairs which have budget cuts of 24 percent, 6 percent and 4 percent respectively, all the other sub-sectors' allocation have increased. The State Departments for Performance Delivery, Devolution and Parliamentary Affairs have the highest increases in budgetary allocations at 200 percent, 125 percent and 115 percent respectively. These increases are for existing programs within these State Departments, rather than the creation or transfer of new programs. For example, budgetary allocation to the Policy Coordination and Strategy and Parliamentary Liaison and Legislative Affairs programs in the State Department of Parliamentary Affairs increased by 303 percent and 203 percent respectively as shown Table 14.

An in-depth review of the PAIR sector budget

Table 14: PAIR Budget Allocation, FY 2023/24 and FY 2024/25

Sector/Vote/Programme Details	Approved Estimates 2023/24			2024/25 BPS Ceilings			% change in allocation
	Current	Capital	Total	Current	Capital	Total	
PUBLIC ADMINISTRATION AND INTERNATIONAL RELATIONS	**182,824.1**	**116,502.3**	**299,326.4**	**204,963.1**	**146,731.7**	**351,694.8**	**17%**
Executive Office of the President	3,337.0	697.0	4,034.0	4,578.6	852.3	5,430.9	35%
Government Printing Services	**673.4**	**313.7**	**987.1**	**694.3**	**500.0**	**1,194.3**	**21%**

Sector/Vote/Programme Details	Approved Estimates 2023/24			2024/25 BPS Ceilings			% change in allocation
	Current	Capital	Total	Current	Capital	Total	
GAPSS	2,041.1	383.3	2,424.4	1,699.2	194.3	1,893.5	-22%
Government Advisory Services	622.5	-	622.5	1,247.6	-	1,247.6	100%
Leadership and Coordination of Government Services				937.5	158.0	1,095.5	
Office of the Deputy President	3,897.7	400.4	4,298.1	4,219.2	250.4	4,469.6	4%
Deputy President Services	3,897.7	400.4	4,298.1	4,219.2	250.4	4,469.6	4%
Office of the Prime Cabinet Secretary	1,195.6	-	1,195.6	1,502.1	-	1,502.1	26%
Government Coordination and Supervision	1,195.6	-	1,195.6	1,502.1	-	1,502.1	26%
State Department for Parliamentary Affairs	393.1	-	393.1	846.1	-	846.1	115%
Parliamentary Liaison and Legislative Affairs	95.7	-	95.7	289.7	-	289.7	203%
Policy Coordination and Strategy	64.6	-	64.6	260.6	-	260.6	303%
GAPSS	232.8	-	232.8	295.8	-	295.8	27%
State Department for Performance and Delivery	355.2	-	355.2	1,064.5	-	1,064.5	200%
Public Service Performance Management and Delivery Services	140.7	-	140.7	297.6	-	297.6	112%
GAPSS	214.5	-	214.5	431.1	-	431.1	101%
Coordination and Supervision of Government Services				36.5	-	36.5	
Service Delivery Management				299.3	-	299.3	
State Department for Cabinet Affairs	617.1	-	617.1	881.8	-	881.8	43%
Cabinet Affairs Services	617.1	-	617.1	881.8	-	881.8	43%
State House	8,528.9	1,309.7	9,838.6	7,675.1	1,558.7	9,233.8	-6%
State House Affairs	8,528.9	1,309.7	9,838.6	7,675.1	1,558.7	9,233.8	-6%
State Department for Devolution	1,971.0	56.0	2,027.0	1,817.5	2,740.0	4,557.5	125%
Devolution Services	1,971.0	56.0	2,027.0	1,817.5	2,740.0	4,557.5	125%
State Department for Foreign Affairs	19,380.8	1,171.0	20,551.8	20,260.9	2,390.1	22,651.0	10%
GAPSS	3,000.8	326.7	3,327.4	4,376.7	426.7	4,803.4	44%
Foreign Relation and Diplomacy	16,215.9	844.3	17,060.2	15,717.4	1,713.4	17,430.8	2%
Economic and Commercial Diplomacy	49.9	-	49.9	51.8	-	51.8	4%
Foreign Policy Research, Capacity Development and Technical Cooperation	114.3	-	114.3	115.0	250.0	365.0	219%
State Department for Diaspora Affairs	1,315.7	-	1,315.7	1,258.1	-	1,258.1	-4%
Management of Diaspora and Consular Affairs	1,315.7	-	1,315.7	1,258.1	-	1,258.1	-4%
The National Treasury	61,250.0	50,011.3	111,261.3	79,583.4	70,012.2	149,595.6	34%
GAPSS	51,188.2	8,951.0	60,139.1	64,872.9	9,624.0	74,496.9	24%
Public Financial Management	8,212.2	31,793.0	40,005.1	12,630.8	46,541.2	59,172.0	48%
Economic and Financial Policy Formulation and Management	1,446.6	9,240.4	10,686.9	1,472.1	13,820.0	15,292.1	43%

Sector/Vote/Programme Details	Approved Estimates 2023/24			2024/25 BPS Ceilings			% change in allocation
	Current	Capital	Total	Current	Capital	Total	
Market Competition	403.1	27.0	430.1	607.6	27.0	634.6	48%
State Department for Economic Planning	4,007.9	59,845.7	63,853.6	4,174.3	65,119.7	69,294.0	9%
Economic Policy and National Planning	2,319.7	58,253.8	60,573.5	2,400.9	62,604.8	65,005.7	7%
National Statistical Information Sendees	1,286.6	1,556.5	2,843.1	1,267.3	2,479.4	3,746.7	32%
Monitoring and Evaluation Services	89.1	35.5	124.6	150.2	35.5	185.7	49%
GAPSS	312.4	-	312.4	355.9	-	355.9	14%
State Department for Public Service	23,378.3	1,085.9	24,464.2	23,908.2	1,383.0	25,291.2	3%
Public Service Transformation	9,324.1	913.9	10,238.0	1,234.8	443.0	1,677.8	-84%
GAPSS	498.9	60.0	558.9	399.3	-	399.3	-29%
National Youth Service	13,555.3	112.0	13,667.3	12,990.8	84.0	13,074.8	-4%
Public Service Human Resource Management and Development				9,283.3	856.0	10,139.3	
Parliament	39,177.0	1,565.0	40,742.0	39,558.4	2,065.0	41,623.4	2%
The Commission on Revenue Allocation	516.8	-	516.8	587.4	-	587.4	14%
Inter-Governmental Transfers and Financial Matters	516.8	-	516.8	587.4	-	587.4	14%
Public Service Commission	3,520.2	45.3	3,565.5	2,672.3	45.3	2,717.6	-24%
GAPSS	856.7	45.3	902.0	954.6	45.3	999.9	11%
Human Resource management and Development	2,455.1	-	2,455.1	1,436.8	-	1,436.8	-41%
Governance and National Values	123.6	-	123.6	173.7	-	173.7	41%
Performance and Productivity Management	54.0	-	54.0	51.2	-	51.2	-5%
Administration of Quasi-judicial Functions	30.7	-	30.7	56.0	-	56.0	82%
Salaries and Remuneration Commission	550.3	-	550.3	559.9	-	559.9	2%
Salaries and Remuneration Management	550.3	-	550.3	559.9	-	559.9	2%
Auditor General	7,978.9	315.0	8,293.9	8,284.5	315.0	8,599.5	4%
Audit Services	7,978.9	315.0	8,293.9	8,284.5	315.0	8,599.5	4%
Office of the Controller of Budget	707.4	-	707.4	758.4	-	758.4	7%
Control and Management of Public finances	707.4	-	707.4	758.4	-	758.4	7%
The Commission on Administrative Justice	745.2	-	745.2	772.4	-	772.4	4%
Promotion of Administrative Justice	745.2	-	745.2	772.4	-	772.4	4%

Data Source: 2024 Budget Policy Statement

proposals for the FY 2024/25 has revealed the following issues:

Why has development budget allocation to certain programs significantly increased without corresponding key performance indicator targets to track them?

Most of the sub-sectors within PAIR are service oriented i.e. not heavily skewed to the provision of tangible development projects to the citizens. However, development budget allocation to certain programs within these sub-sectors have significantly increased without corresponding key performance indicators targets. For example, the development budget allocation to the Devolution Services program in the State Department for Devolution has increased by 3,146 percent from Kshs. 56 million in FY 2022/23 to Kshs. 1.8 billion in FY 2024/25. The key performance indicators identified in the SWG report for the FY 2024/25 do not provide information on what the program will undertake in line with the big increase in capital budget allocation i.e. the key performance indicator targets correspond to the daily administrative tasks undertaken in the sub-sector i.e. number of policies reviewed, number of devolution conferences organized, and so on. This is slightly different from the KPIs provided in the approved Programme Based Budget i.e. it has provided specific indicators for certain capital projects to be implemented in the FY 2023/24. For example, the program targeted to complete 35 percent construction of Kisumu Convention Centre and 100 percent completion of Kadongo Market Shed by the end of FY 2023/24. Such KPIs enable both the citizens and government officials to track project implementation against the utilized funds.

Similarly, the development budget allocation to the Foreign Policy Research, Capacity Development and Technical Cooperation program in the State Department for Foreign Affairs increased to Kshs. 250 million in the FY 2024/25 against a recurrent allocation of Kshs. 115 million. The sector was not allocated any development budget in the previous year. The key performance indicators for the program for FY 2024/25 include number of ambassadors inducted, number of presidential commitments actualized, number of MoUs reviewed and signed etc. These indicators also measure administrative tasks as opposed to development sector targets. In view of the above, what exactly do these programs in the above State Departments plan to implement with the increased development budget and how would they track performance? To enhance transparency and accountability, they should provide information on what this significant increase in capital spending would fund.

Additionally, there is a need to enhance key performance indicators target setting and reporting. This transcends the sector working group reports into the Programme Based Budget. Ministries, Departments and Agencies need to set realistic key performance indicators based on the allocated resources i.e. set key performance indicators for both recurrent and development budgets. This will enable them to track implementation progress within the year and review performance at the end of the accounting period.

Why has the government fast tracked digitalization of government payments to E-citizen without addressing the Auditor General's concerns on the reliability and credibility?

A presidential directive was issued in August 2023 that all Ministries, Departments and Agencies (MDAs) migrate their payments services to the E-citizen platform in a bid to improve service delivery and centralize payments to enhance revenue collection. Most government services have since been on-boarded into the platform and it is expected that the remaining services will be on-boarded soon. This has amplified E-citizen's strategic importance in the government's financial architecture.

However, the Auditor General in the National Government Audit Report for the FY 2022/23 has raised concerns on the reliability and credibility of the system and issued an adverse opinion on the E-citizen Revenue Accountability Statement. The Auditor identified various strategic risks including long delays in transfer of funds; variances in E-portal system receipts, ledger balances and revenue statements; non-provision of some cash books and bank reconciliation statements for audit; and manual reconciliation and settlement of payments by accountants.

This raises pertinent concerns on accountability of collected funds and may lead to loss of funds as more services are on-boarded into the system. The Auditor General has also identified over reliance on a vendor who has significant control of the system making it difficult to on-board new services, pending court case on the ownership of the system and a lack of approved information technology security policy as some of the structural issues that may hinder the protection of users against fraud, loss of data confidentiality and errors. With this glaring accountability and ownership issues, why has the government proceeded to fast track the on-boarding of services into this system without fast tracking the implementation of proper systems for bookkeeping, reconciliations and bank transfers thereby exposing it to potential loss of revenue?

While digitizing and centralizing payments via one platform as opposed to each department collecting user fees independently has the potential to enhance revenue collection, there's a need to ensure improved functionality of the E-citizen system by automating its accounting functions. This will not only enhance its reliability and credibility but also accountability of collected funds. Further, the government needs to fast track the out of court negotiations with the E-citizen vendor to sort out the system ownership issues. This should include providing rights to MDAs to enable them to easily on-board new services without over relying on the vendor. Should the system ownership issues prevail for long, the government should develop an alternative payment system that it fully owns and migrate these services.

3.5 Education Sector

3.5.1 Overview

In the FY 2024/25, the education sector budget has been allocated three percent less than last year. Primary Education, Technical, Vocational, Education and Training (TVET) and University Education have been affected greatly by the fiscal consolidation measures being implemented, as they have received the highest budget cuts of 26 percent, 15 percent, and 18 percent respectively. However, Research, Science, Technology, and Innovation (RSTI), General Administration Planning and Support Services (GAPPS) under TSC and Teacher Resource Management (TRM) programs are set to receive budget increases of 30 percent, 11 percent and 8 percent respectively. Though the share of RSTI budget in the total education budget will remain unchanged, for Teacher Resource Management will rise from 49 percent in FY 2023/24 to 54 percent in FY 2024/25 owing to the government's priority of employing more teachers in primary and secondary schools.

3.5.2 Sector priorities in the 2024 BPS.

The 2024 Budget Policy Statement (BPS) has highlighted the government priority for the sector as employment of more teachers to reduce low teacher-student ratio exacerbated by 100 percent transition and CBC implementation, recruitment of additional TVET tutors and teaching and learning of digital skills from primary school to tertiary education institutions.

3.5.3 Key message for FY2024/25

In the era of fiscal consolidation, primary and secondary education programmes are likely to be worst affected since they do not have a way of generating extra revenue compared to institutions of higher learning. To safeguard learners at the basic education institutions, there is a need to fast track the merging of governance and standards programmes with the quality and assurance standards to free up resources that can be used to increase funding for primary and secondary education. For TVETs and universities, research and innovation present an opportunity to generate additional resources.

3.5.4 Previously Raised and Persistent Budget Issues.

Pending bills continue to haunt University Education though the programme has high absorption rates. Despite being an issue in the 2023 shadow budget, the pending bills worsened as they increased from 52.5 billion in FY 2021/22 to 61.2 billion in FY 2022/23. Education sector MTEF highlights the leading sources of pending bills in University Education programme arise from delayed compensation of employees and failure to remit social benefits like NHIF and NSSF. To cushion their employees from accessing health services in the new Social Health Insurance Fund, it is paramount for the universities to prioritize remitting the NHIF deductions.

The Primary Education programme continues to have fluctuating budget allocation from one year to the next. The programme had the highest budget increase of 64 percent in FY 2023/24, while in FY 2024/25 it is the biggest loser as it will receive a budget cut of 26 percent. This is because the programme has been affected by implementation of CBC where the number of years it takes to complete primary education has reduced from 8 to 6. The budget absorption rate dropped from 84 percent in FY 2021/22 to 75 percent in FY 2022/23, but the programme managed to achieve on average 79 percent of its KPIs. Notably, the programme seems to be achieving KPIs that are recurrent in nature than development ones. This is reflected in the recurrent expenditure absorption rate of 98 percent compared to 25 percent of the development expenditure in FY 2022/23.

3.5.5 Review of Financial and Non-Financial Performance for FY2022/23

The education sector is going through reforms that are in tandem with the Presidential Working Party on Education Reform Report. The reforms aim to advance quality and inclusive education, sustainable development through training and research and foster socio-economic development.

Table 15: Education Sector Budget Performance FY 2022/23 (Ksh Million) and Absorption Rate (%)

	2022/23 Approved Budget	2022/23 Actual Expenditure	Absorption Rate (%)	No. of key performance indicators in FY 2022/23	% average of Key performance indicators achieved in FY 2022/23
State Department for Basic and Early Education					
Primary Education	28897	21741	75%	15	79%
Secondary Education	96534	91945	95%	12	73%
Quality Assurance and Standards	4015	3665	91%	8	87%
General Administration, Planning and Support Services	5376	4986	93%	15	84%
State Department for Technical, Vocational, Education and Training					
Technical Vocational Education and Training	24152	20438	85%	29	57%
Youth Training and Development	47	38	81%	2	50%
General Administration, Planning and Support Services	218	214	98%	8	90%
State Department for Higher Education and Research					
University Education Programme	107049.6	98764.35	92%	16	96%
Research, Science, Technology and Innovation Programme	1067.39	1022.4	96%	15	93%
General Administration, Planning and Support Services	331.87	290	87%	4	69%
Teacher Service Commission					
Teacher Resource Management	291762	289741	99%	8	100%
Governance and Standards	1155	723	63%	8	92%
General Administration, Planning and Support Services	7278	6502	89%	7	75%
Total	**567882.9**	**540069.75**	**95%**	**148**	**80%**

Data Source: National Treasury, SWG Report

Under the State Department for Basic and Early Education, the Secondary Education programme had the highest budget absorption rate of 95 percent in FY 2022/23 but compared to other programs, it had the lowest KPIs that were achieved. The Quality Assurance and Standards (QAS) programme budget absorption rate remained relatively high at 91 percent in FY 2022,23, though it dropped slightly from 94 percent as reported in FY 2021/22. QAS achieved on average 87 percent of its Key Performance Indicators (KPI). General Administration, Planning and Support Services (GAPSS) is experiencing a shortage of quality assistance officers, and this might limit the implementation of the Quality Assurance Standards in the Ministry of Education (MOE). This is evidenced by the number of Quality Assurance Officers recruited since the target was 130 officers in FY 2022/23 but only 9 qualified. Therefore, the State department should fast track the implementation of this KPI by hiring quality officers.

Under the state department for TVETs, the TVET programme absorbed 85 percent of its budget in FY 2022/23 and achieved on average 57 percent of its 29 KPIs. Therefore, there is a need to realign the 29 KPIs in this programme so that they can be met with the set budget allocations. Further, to release extra resources, the Youth Training and Development Programme needs to be re-evaluate as it achieved one KPI out of two and the programme had a budget absorption rate of 81 percent.

In FY 2022/23, the University Education programme achieved on average 96 percent of the KPIs. However, the number of students placed by KUCCPS in universities decreased due to preference for diploma courses in TVET institutions. Further, with the implementation of the new university funding model in September 2023 there is a likelihood of public universities being hit hard financially as more students prefer to join private institutions. To cushion themselves financially, they need to improve their research to generate innovations that earn them money.

Over the years, the Teacher Service Commission (TSC) programme has been absorbing its budget entirely and achieving its KPIS. In the FY 2022/23, the Teacher Service Commission programme reported a high absorption rate of 99 percent for Teacher Resource Management and 100 percent achievement of KPIs. Despite the governance and resource management absorbing 63 percent of the budget, it achieved 92 percent of its KPIs. However, the Presidential Working Party on Education Reform Report noted that there exist overlapping roles between Quality Assurance and Standards under the Ministry of Education and Governance and Standards under TSC.

3.5.6 Analysis of Sector Allocations for FY 2024/25 and Recommendations

The education sector is undergoing reforms that aligns to the Presidential Working Party on Education Reform Report. In the 2024 BPS, the government prioritizes:

i. Recruitment of more teachers to further bridge the teacher-student ratio gap. In FY 2023/24, the government intends to employ 4000 teachers and 2000 interns in primary schools and 22 000 teachers and 18000 interns in secondary schools. TSC plans to promote 4000 primary school teachers and 1920 secondary school teachers. To achieve this, the Teacher Resource management programme is set to receive an 8 percent budget increase.
ii. Employment of additional 2000 tutors in TVETs in FY 2024/25 according to the education sector's MTEF. A discrepancy, however, is conspicuous in the 2024 BPS where the TVET programme indicates a targeted recruitment of 3000 tutors. While there is a plan to recruit additional tutors, the programme is set to get a budget cut of 15 percent that majorly affects recurrent expenditure casting doubts whether this plan will fully materialize.

Despite the State Department for Higher Education and Research receiving a budget cut of 18 percent, the Research, Science, Technology and Innovation is getting the highest increase of 30 percent with its development expenditure rising from Ksh.126 million to sh.354 million. This shows the government desire to fund more research projects in a move meant to increase research and innovation capacities of the universities. However, this programme has been

Table 16: Education Resource Budget Allocation, Ksh Millions

Sector Resource Requirement vs Allocation by Programme	Approved Estimates 2023/24			2024/25 BPS Ceilings			% change in allocation	% Share of the Sector Budget	% Share of the Sector Budget
	Current	Capital	Total	Current	Capital	Total			
EDUCATION	**655657.5**	**33954.1**	**689611.6**	**638044**	**28425**	**666469**	**-3%**	**100%**	**100%**
State Department for Technical, Vocational Education and Training	25843.4	7070	32913.4	21492	6474	27966	-15%	5%	4%
Technical Vocational Education and Training	25332.4	7070	32402.4	21177	6474	27651	-15%	5%	4%
Youth Training and Development	50.4	0	50.4	45	0	45	-11%	0%	0%
General Administration, Planning and Support Services	460.6	0	460.6	270	0	270	-41%	0%	0%
State Department for Higher Education & Research	150973.7	3551	154524.7	122642	3956	126598	-18%	22%	19%
University Education	149935.1	3425	153360.1	121640	3602	125242	-18%	22%	19%
Research, Science, Technology and Innovation	669.4	126	795.4	678	354	1032	30%	0%	0%
General Administration, Planning and Support Services	369.3	0	369.3	324	0	324	-12%	0%	0%
State Department for Basic Education	136440	22131.1	158571.1	124472	17490	141962	-10%	23%	21%
Primary Education	21884.4	15429.3	37313.7	19030	8712	27742	-26%	5%	4%
Secondary Education	103933.6	6568.8	110502.4	95010	8375	103385	-6%	16%	16%
Quality Assurance and Standards	5085.7	133	5218.7	5076	303	5379	3%	1%	1%
General Administration, Planning and Support Services	5536.3	0	5536.3	5356	100	5456	-1%	1%	1%
Teachers Service Commission	342400.4	1202	343602.4	369438	505	369943	8%	50%	56%
Teacher Resource Management	333583.4	1115	334698.4	359793	395	360188	8%	49%	54%
Governance and Standards	1312.1	0	1312.1	1313	0	1313	0%	0%	0%
General Administration, Planning and Support Services	7504.9	87	7591.9	8332	110	8442	11%	1%	1%

Data Source: 2024 Budget Policy Statement

receiving fluctuating funding despite its importance in raising innovations at the universities. Primary programme under the State Department for Basic Education has the highest budget cut of 26 percent where its development expenditure is falling from Ksh.15.4 billion to sh. 8.7 billion. Its share in the total education sector budget is dropping from 5 percent in FY 2023/24 to 4 percent in FY 2024/25. This is despite the programme receiving the highest increase of 64 percent in FY 2023/24.

Why is the TVET programme receiving a budget cut despite it being a priority for the government in the FY 2024/25?

The government intends to employ more tutors at TVETs but from the 2024 BPS, the TVET programme is receiving a budget cut of 15 percent. In the FY 2022/23, the programme had targeted to employ 3000 tutors but only managed to recruit 1300 because of austerity measures. Given the programme is a priority for the government, , additional resources to fund the programme can come from redesigning youth training and development programme which achieved one out of two KPIs in FY 2022/23 . The programme can also raise additional funding through research and innovations.

Why is teaching and learning of digital skills from primary to tertiary education a priority in the BPS yet it is not a KPI in the education sector programs in the Sector Working Report?

While the government wants to integrate ICT in the education sector, it is important to include teaching and learning of digital skills as KPI in primary schools, secondary schools, TVET and tertiary education. Notably, only secondary education has a KPI on the number of teachers trained on ICT integration in teaching and learning. To achieve this KPI across the education sector it would be important to train teachers primary school to tertiary education on digital skills before teaching learners the same. This would mean more resources are required which could come from reducing the budget of GAPSS under TSC.

3.6 Governance, Justice, Law & Order (GJLO)

3.6.1 Overview

The Governance, Justice, Law and Order (GJLO) sector has been highlighted as an avenue for a secure, just, cohesive, democratic, accountable and transparent environment for a globally competitive and prosperous Kenya. To achieve its key objectives, the sector will receive an increase of 4 percent to its budget in FY 2024/25 to Ksh 250 billion from Ksh 240 billion in the current financial year

3.6.2 Key Messages for FY 2024/25

The sector should ensure there is a clear linkage between the priorities, their Key Performance Indicators (KPIs), and budgetary allocations. The sector has a list of priorities in the Budget Policy Statement (BPS) that are not backed with details on how to achieve them. These priorities should be specific and show commitment. It is important that the Sector highlights a roadmap on how these priorities will be achieved. This will ensure that the scarce resources are distributed accordingly while providing for a framework that allows for accountability.

It is imperative for the Sector to give priority to activities that will reduce occurrences of corruption while at the same time protecting the whistleblowers. A lot of resources are lost to corruption and there should be measures to reduce these opportunities. This would also ensure that the country has adequate resources to achieve the various priorities the government has set.

3.6.3 Previously Raised and Persistent Budget Issues.

1. **Absorption of development budget increased by 2 percent in FY 2022/23 but still lag recurrent expenditure.** Development expenditure still lags recurrent but has improved over time. In FY 2022/23, development budget absorption increased to 93 percent from 86 percent while the recurrent absorption increased to 98 percent. There is no explanation of the growth of the expenditure although the sector reports note that the sector adopted modern technology in the delivery of services.

2. **Decline in resource allocation to the sector, despite it being an enabler for achieving the bottom-up economic model.** In the supplementary budget I FY 2023/24, the sector had an increase of Kshs 9 billion, or 4 percent. There were changes within the sector with some sub sectors receiving increases and decreases. The areas that saw budget cuts during the supplementary were the IEBC, the Judiciary, and KNCHR. In the 2024 BPS, the sector has a ceiling of Kshs 250 billion, an increase of 4 percent. Among the winners are the State Department for Immigration and Citizen Services, Office of the Registrar of Political Parties, and National Gender and Equality Commission. Among the sub sectors receiving a decline are the State Department for Internal Security and National Administration, ODPP,

and IEBC. In 2016, the Judiciary fund was passed as a requirement of the Constitution and would be used for administrative costs. The fund would be a charge on the Consolidated fund and monies would be deposited directly into the fund. In FY 2022/23 the National Treasury deposited Kshs 9 billion into the Fund. Even though the budgetary allocation sought by the Judiciary has not yet been met, the Fund is a crucial step in securing the financial independence of the institution.

3. **Significant oversight or neglect in providing the necessary resources for the commission to fulfill its constitutional mandate.** The total allocation to IEBC in FY 2023/24 was Kshs 4.5 billion. This was later reduced by Kshs 297 million to Kshs 4.3 billion in the supplementary budget. There was an outcry that the budget allocated to IEBC would not be sufficient to demarcate the boundaries. It is worth noting that the fixing of boundaries has a constitutional deadline of March 2024. This is according to Article 89 (2) of the Constitution of Kenya that provides that IEBC should review names and boundaries of electoral areas at intervals of not less than eight years and not more than 12 years. The last review was done in 2012. In the sector ceilings contained in the 2024 BPS, IEBC's overall allocation will decrease by 8 percent while as the Delimitation of Electoral Boundaries programme will receive an increase of 235 percent. This implies that while IEBC's overall budget may have decreased slightly, there are specific allocations aimed at ensuring that the commission has adequate funds for the crucial demarcation exercise.

4. **Low allocation of development budget.** The sector received an increase of Kshs 9 billion in the supplementary budget I. The development budget received a lion share of this increase (Kshs 5 billion). In the 2024 BPS, the development budget has continued to rise, by 20 percent over FY 2023/24. This implies a deliberate effort to prioritize developmental initiatives and projects within the sector. Some of the beneficiaries of this increase include the State Department for Correctional Services, State Department for Immigration and Citizen Services, and the Judiciary.

5. **Absence of information on judiciary performance and resource requirements.** This information has still not been provided in the current sector report. The report only provides information on allocation to the Judiciary but not a review of past performances or the targets for the coming financial year and over the medium-term.

3.6.4 Review of Financial and Non-Financial Performance in FY 2022/23

The sector exhibited a notable enhancement in budget absorption, with the absorption rate surging to 98 percent in FY 2022/23 from 89 percent in the previous fiscal year. Despite achieving impressive budget absorption rates, the State Department for Immigration and Citizen Services and the EACC's Key Performance Indicators (KPIs) performance, present a contrasting picture. While both programmes absorbed 100 percent of their development budgets and 96 percent overall, they achieved only 44 percent and 25 percent of their KPIs, respectively. This disparity highlights the nuanced challenge of balancing efficiency in budget absorption with effectiveness in achieving desired outcomes. While high absorption rates signify prudent financial stewardship, they do not necessarily guarantee impactful results. The low achievement of KPIs by key programmes within the sector raises questions about the effectiveness of spending and the extent to which allocated funds contribute to tangible improvements in service delivery, governance, and overall sectoral performance.

Table 17: GJLO Sector Budget Performance FY 2022/23 (Ksh Millions) and Absorption Rate (%)

Program	2022/23 Approved Budget			2022/23 Actual Expenditure			Absorption Rate		
	Rec	Dev.	Total	Rec	Dev.	Total	Rec	Dev.	Total
State Department for interior and Citizen services	**106,468**	**3,898**	**110,365**	**105,253**	**3,696**	**108,672**	**99%**	**95%**	**98%**
Policing Services	79,751	631	80,382	78,864	816	79,680	99%	129%	99%
Planning, Policy Coordination and support services	18,648	609	19,257	18,847	450	19,211	101%	74%	100%
Government Printing Services	536	11	547	508	0	508	95%	0%	93%
Road Safety	1,728	642	2,370	1,244	599	1,842	72%	93%	78%
Population Registration services	2,932	998	3,930	3,056	866	3,732	104%	87%	95%
Migration and Citizen Services Management	2,089	1,007	3,095	1,954	965	2,919	94%	96%	94%
Policy Coordination Services	**784**	**0**	**784**	**780**	**0**	**780**	**99%**	**0%**	**99%**
State Department for Correctional Services	31,567	506	32,072	31,270	423	31,693	99%	84%	99%
Prison services	29,431	307	29,738	29,422	300	29,722	100%	98%	100%
Probation and After Care Services	1,780	199	1,978	1,568	123	1,691	88%	62%	85%
GAPSS	356	0	356	280	0	280	79%	0%	79%
State Department for Immigration and Citizen Services	**1,908**	**107**	**2,014**	**1,826**	**107**	**1,933**	**96%**	**100%**	**96%**
Migration & Citizen Services management	1,022	36	1,058	999	36	1,035	98%	100%	98%
Population Management Services	886	71	956	827	71	898	93%	100%	94%
National Police Service	**25,180**	**0**	**25,180**	**24,809**	**0**	**24,809**	**98%**	**0%**	**98%**
Policing Services	25,180	0	25,180	24,809	0	24,809	99%	0%	99%
State Department for Internal Security and National Administration	**8,846**	**0**	**8,846**	**7,843**	**0**	**7,843**	**89%**	**0%**	**89%**
General Administration and Support Services	8,419	0	8,419	7,523	0	7,523	89%	0%	89%
Government Printing Services	179	0	179	129	0	129	72%	0%	72%
Policy Coordination Services	248	0	248	191	0	191	77%	0%	77%
State Law Office and Department of Justice	5,719	96	5,815	5,452	68	5,520	95%	71%	95%
Legal Services	2,705	0	2,705	2,628	0	2,628	97%	0%	97%
Governance, Legal Training and Constitutional Affairs	1,878	85	1,963	1,841	57	1,898	98%	67%	97%
GAPSS	1,136	11	1,147	983	11	994	87%	100%	87%
Ethics and Anti-Corruption Commission	**3,521**	**47**	**3,567**	**3,392**	**47**	**3,438**	**96%**	**100%**	**96%**
Ethics and Anti-Corruption	3,521	47	3,567	3,392	47	3,438	96%	100%	96%
Office of the Director of Public Prosecutions	**3,670**	**12**	**3,682**	**3,520**	**7**	**3,527**	**96%**	**58%**	**96%**
Public Prosecution Services	3,670	12	3,682	3,520	7	3,527	96%	58%	96%
Office of the Registrar of Political Parties	**1,530**	**0**	**1,530**	**1,455**	**0**	**1,455**	**95%**	**0%**	**95%**
Registration, Regulation and Funding of Political Parties	1,530	0	1,530	1,455	0	1,455	95%	0%	95%
Witness Protection Agency	**632**	**0**	**632**	**634**	**0**	**634**	**100%**	**0%**	**100%**

Program	2022/23 Approved Budget			2022/23 Actual Expenditure			Absorption Rate		
	Rec	Dev.	Total	Rec	Dev.	Total	Rec	Dev.	Total
Witness Protection	632	0	632	634	0	634	100%	0%	100%
Kenya National Commission on Human Rights	**451**	**0**	**451**	**451**	**0**	**451**	**100%**	**0%**	**100%**
Protection and Promotion of Human Rights	451	0	451	451	0	451	100%	0%	100%
Independent Electoral and Boundaries Commission	**20,630**	**0**	**20,630**	**20,229**	**0**	**20,229**	**98%**	**0%**	**98%**
Management of Electoral Processes	20,368	0	20,368	20,016	0	20,016	98%	0%	98%
Delimitation of Electoral Boundaries	262	0	262	213	0	213	81%	0%	81%
National Police Service Commission	**1,007**	**0**	**1,007**	**958**	**0**	**958**	**95%**	**0%**	**95%**
National Police Service Human Resource Management	1,007	0	1,007	958	0	958	95%	0%	95%
National Gender and Equality Commission	**398**	**10**	**408**	**397**	**6**	**403**	**100%**	**60%**	**99%**
Promotion of Gender Equality and Freedom from Discrimination	398	10	408	397	6	403	100%	60%	99%
Independent Policing Oversight Authority	**927**	**0**	**927**	**906**	**0**	**906**	**98%**	**0%**	**98%**
Policing Oversight Services	927	0	927	906	0	906	98%	0%	98%
TOTAL	**212,454**	**4,676**	**217,126**	**208,395**	**4,354**	**212,471**	**98%**	**93%**	**98%**

Data Source: National Treasury, SWG Report

3.6.5 Analysis of Sector Allocation for FY 2024/25 and Recommendations.

In FY 2024/25, the sector's budget will increase by 4 percent over the previous year, to Ksh. 250 billion. The development budget will see a substantial 22 percent increase, with a focus on enhancing infrastructure. Roughly 75 percent of the sector budget is shared among just three departments, with the National Police Service receiving the largest share at 46 percent, followed by the State Department of Correctional Services and the State Department of Internal Security and National Administration at 15 percent and 14 percent, respectively. This allocation indicates a clear emphasis on law enforcement, internal security, and administrative functions. While the remaining thirteen sub-sectors share the remainder of the budget, the distribution among these sub-sectors suggests a broad but targeted approach to addressing various priorities within the sector.

In the FY 2024/25 ceilings, there are the sub sectors that are set to get an increase such as Office of the Registrar of Political Parties, with 59 percent, State department for Immigration and Citizen Services with an increase of 26 percent and National Gender and Equality Commission at 12 percent. There are some sub sectors that will experience budget cuts in the coming financial year such as the Office of the Director of Public Prosecutions at 9 percent.

Table 18: GJLO Resource Budget Allocation (Kshs Millions)

Program	2023/24 BPS ceiling			2024/25 BPS ceiling			% change in allocation	% Share of the Sector Budget	
	Rec	Dev.	Total	Rec	Dev.	Total			
GOVERNANCE, JUSTICE, LAW AND ORDER	**225,163**	**15,172**	**240,336**	**232,423**	**18,497**	**250,919**	**4.4%**	**100.0%**	**100.0%**
State Department for Correctional Services	**34,851**	**695**	**35,546**	**35,964**	**1,176**	**37,140**	**4.5%**	**14.8%**	**14.8%**
General Administration, Planning and Support Services	565	-	565	614	12	626	10.8%	0.2%	0.2%
Prison Services	32,114	550	32,664	32,933	943	33,876	3.7%	13.6%	13.5%
Probation & After Care Services	2,172	145	2,317	2,418	221	2,638	13.9%	1.0%	1.1%
State Department for Immigration and Citizen Services	9,136	3,497	12,633	10,289	5,584	15,873	25.6%	5.3%	6.3%
Migration & Citizen Services	3,698	2,275	5,973	4,232	2,660	6,892	15.4%	2.5%	2.7%
Population Management Services	4,584	1,217	5,801	5,177	2,612	7,789	34.3%	2.4%	3.1%
General Administration and Planning	855	5	860	880	312	1,192	38.6%	0.4%	0.5%
National Police Sen ice	**106,324**	**1,654**	**107,978**	**112,163**	**2,129**	**114,292**	**5.8%**	**44.9%**	**45.5%**
Policing Services	106,324	1,654	107,978	112,163	2,129	114,292	5.8%	44.9%	45.5%
State Department for Internal Security and National Administration	**29,524**	**7,479**	**37,003**	**27,799**	**7,437**	**35,237**	**-4.8%**	**15.4%**	**14.0%**
General Administration and Support Services	28,092	7,413	35,505	8,623	6,581	15,203	-57.2%	14.8%	6.1%
National Government Field Administration Services				17,735	742	18,477		0.0%	7.4%
Policy Coordination Services	1,433	66	1,499	1,442	115	1,557	3.9%	0.6%	0.6%
State Law Office	**6,394**	**193**	**6,587**	**6,313**	**191**	**6,504**	**-1.3%**	**2.7%**	**2.6%**
Legal Services	2,990		2,990	3,090		3,090	3.3%	1.2%	1.2%
Governance, Legal Training and Constitutional Affairs	2,024	49	2,073	1,965	64	2,033	-1.9%	0.9%	0.8%
General Administration, Planning and Support Services	1,380	144	1,524	1,258	122	1,380	-9.4%	0.6%	0.6%
The Judiciary	**20,437**	**1,450**	**21,887**	**20,937**	**1,850**	**22,787**	**4.1%**	**9.1%**	**9.1%**
Dispensation of Justice	20,437	1,450	21,887	20,937	1,850	22,787	4.1%	9.1%	9.1%
Ethics and Anti-Corruption Commission	**3,694**	**68**	**3,762**	**3,900**	**58**	**3,958**	**5.2%**	**1.6%**	**1.6%**
Ethics and Anti-Corruption	3,694	68	3,762	3,900	58	3,958	5.2%	1.6%	1.6%
Office of the Director of Public Prosecutions	**4,007**	**55**	**4,062**	**3,637**	**48**	**3,685**	**-9.3%**	**1.7%**	**1.5%**
Public Prosecution Services	4,007	55	4,062	3,637	48	3,685	-9.3%	1.7%	1.5%
Office of the Registrar of Political Parties	**1,260**	**-**	**1,260**	**2,000**	**-**	**2,000**	**58.7%**	**0.5%**	**0.8%**
Registration, Regulation and Funding of Political Parties	1,260	-	1,260	2,000	-	2,000	58.7%	0.5%	0.8%
Witness Protection Agency	**813**	**-**	**813**	**782**	**-**	**782**	**-3.9%**	**0.3%**	**0.3%**
Witness Protection	813	-	813	782	-	82	-3.9%	0.3%	0.3%
Kenya National Commission on Human Rights	**540**	**-**	**540**	**524**	**-**	**524**	**-3.0%**	**0.2%**	**0.2%**
Protection and Promotion of Human Rights	540	-	540	524	-	524	-3.0%	0.2%	0.2%

Program	2023/24 BPS ceiling			2024/25 BPS ceiling			% change in allocation	% Share of the Sector Budget	
	Rec	Dev.	Total	Rec	Dev.	Total			
Independent Electoral and Boundaries Commission	**4,674**	**77**	**4,751**	**4,354**	**24**	**4,378**	**-7.9%**	**2.0%**	**1.7%**
Management of Electoral Processes	4,664	77	4,741	4,321	24	4,345	-8.4%	2.0%	1.7%
Delimitation of Electoral Boundaries	10	-	10	33	-	33	234.7%	0.0%	0.0%
Judicial Service Commission	**897**	**-**	**897**	**903**	**-**	**903**	**0.7%**	**0.4%**	**0.4%**
General Administration, Planning and Support Services	897	-	897	903	-	903	0.7%	0.4%	0.4%
National Police Service Commission	**,152**	**-**	**1,152**	**1,270**	**-**	**1,270**	**10.2%**	**0.5%**	**0.5%**
National Police Service Human Resource Management	1,152	-	1,152	1,270	-	1,270	10.2%	0.5%	0.5%
National Gender and Equality Commission	**440**	**5**	**445**	**498**	**-**	**498**	**11.9%**	**0.2%**	**0.2%**
Promotion of Gender Equality and Freedom from Discrimination	440	5	445	498	-	498	11.9%	0.2%	0.2%
Independent Policing Oversight Authority	**1,019**	**-**	**1,019**	**1,091**	**-**	**1,091**	**7.0%**	**0.4%**	**0.4%**
Policing Oversight Services	1,019	-	1,019	1,091	-	1,091	7.0%	0.4%	0.4%

1. **Why are some of the key priorities listed in the BPS missing KPIs and financial commitments?**
   In the 2024 BPS, the government has laid down its key priorities for the coming financial year. They include increased use of geographical information systems in crime surveillance and mapping; promoting anti-corruption, ethics and integrity, national values, and cohesion; facilitating effective compliance with the Constitution, and supporting the Office of Registrar of political parties through the establishment of county offices among others.

   However, despite the clear delineation of these priority areas, the sector lacks detailed plans for achieving its objectives and there seems to be a mismatch between the BPS and the sector reports regarding priority setting. The BPS, the guiding document in laying down the government's priorities, does so in a very broad manner. The framing of the priorities in the BPS is very broad and it makes it difficult to find a clear nexus between the priorities, their programmes and budgetary information.

   From the priorities listed, there is a noticeable lack of financial commitment in certain priorities within the sector. Specifically, within the Office of the Registrar of Political Parties, there are no allocated budget ceilings for development in both the FY 2023/24 and FY 2024/25 BPS. While the subsector receives an increase in its 2024/25, the main beneficiary of this is the registration and regulation of the political parties. This absence of budget allocation strongly implies that the objective of establishing county offices will remain unfunded and consequently unrealized. In the current strategic plan (2020-2025), the ORPP notes that having established 7 county offices was one of its strengths and plans would be made to establish offices in the remaining areas.

   Another key priority for the sector is to promote anti-corruption efforts in the Country. Fighting corruption is not only a preserve of the EACC but other closely related agencies such as the ODPP that prosecute corruption cases. Another important body is the Witness Protection Agency (WPA) that offers protection for whistleblowers. In the coming financial year, the ODPP and WPA are set to receive a decline of 9 percent and 4 percent, respectively. These working together would go a long way in combating corruption and saving citizens money.

Recommendation

It is imperative for the government to establish a clear connection between its identified priorities, the corresponding KPIs, and the financial resources allocated to support their implementation. Moreover, the MTEF should incorporate a comprehensive roadmap detailing the specific steps and strategies the government intends to undertake in order to achieve its strategic objectives. By doing so, the government can enhance transparency, accountability, and effectiveness in the implementation of its policies and initiatives, ultimately leading to tangible and sustainable outcomes.

It is also important for the government to strengthen the departments and agencies that help fight corruption and reduce the instances that corruption happens. They include the EACC, ODPP and the WPA.

2. **Is the IEBC fully funded to carry out its priorities for FY 2024/25?** In the coming financial year, the Independent Electoral and Boundaries Commission (IEBC) has various key priority activities it intends to undertake. They include the delimitation of the boundaries, registration of voters, public education on election related matters, and the construction of IEBC warehouses in the counties. Some of these priorities are a requirement of the Constitution such as the delimitation of boundaries. This activity had a constitution of March 2024. In the FY 2024/25 ceilings, the Commission will have a decrease of 8 percent of its budget. The decrease mainly affects the Management of Electoral Processes programme whose allocation has declined from Ksh 4.7 billion in FY 2023/24 to Ksh 4.3 billion in FY 2024/25 ceilings. There are mixed fortunes in the Commission as the Delimitation of electoral boundaries programme has an increase of its budget to Ksh 33 billion in the FY 2024/25 ceilings from Ksh 9 billion in the current financial year. This increase will not cater for the delimitation of the constituencies and County Assembly Wards as this exercise is scheduled to be financed in FY 2025/26.

There are also plans to continuously register voters though the targets for FY 2024/25 have declined to 0.05 million from 0.5 million in the current financial year. Further, IEBC will conduct/ provide civic education on their civic duty and on issues around the election cycle. This is mostly through stakeholder forums and is mainly donor funded. IEBC The commission notes that it will construct 4 county warehouses. It is worthy to note that the construction of at least 4 county warehouses is still ongoing. With a decline in the development budget, these projects may not be fully funded.

Recommendation

It would be prudent to allocate the scarce resources to the completion of these ongoing projects as opposed to starting the construction of new warehouses. This will not only lead to prudent use of resources but also ensure value of money by having completed projects. The government should ensure that they invest more in civic education to avoid the over reliance from foreign governments and other development partners.

3. **Why is the State Department of Immigration and Citizen Services receiving an increase in the FY 2024/25 Budget despite the expected delays in printing of the passports?** The department is responsible for the printing of the e-passports. The department has pointed out that the lack of booklets and breakdown of the printers has led to the delays in delivering the e-passports to the citizens. The department further notes that there were delays on the shipment of the machines. In the FY 2022/23 audit reports, the Auditor General points out that the department had entered a contract with an international company to print and deliver at least 334,000 booklets. The auditor notes that this delay of printing the passports has greatly affected the operations of the department as far as the issuance of passports to citizens is concerned.

In the supplementary budget, the department has received an increase of at least 10 percent, and this is the same case in the BPS ceiling where there is an increase of 26 percent. The challenges facing the department in the issuance of passports to Kenyans is not an issue with the financing. Therefore, allocating more resources does not really solve the problem. This challenge with the printer has also been echoed by the Department in their various reports such as the sector reports.

Despite the challenges highlighted, the department reports 96 percent absorption of its FY 2022/23 budget. This is against the achievement of 59 percent of its intended target for the same year. There is a clear mismatch between the resources spent against the achieved targets. There should be prudence in the use of scarce resources. The department has failed to achieve the set targets despite absorbing most of its budget.

At the same time, the Department is also set to increase the cost of accessing some of its services such as passport application, renewal and replacement. This implies that the Department will get additional revenue from delivering these services and improve efficiencies.

Recommendation

The resources can be directed towards other priority activities such as the digitization of immigration records that was not conducted due to budget cuts. In the 2022/23 Audit Reports, it is reported that at least 10 million records had not been digitized. This would be a more prudent use of the scarce resources while the Department for Immigration and Citizen Services put measures in place to fix the challenges they are facing with the printers to clear the backlog that they are currently facing.

4. **Why has the State Department for Correctional Services marked stalled projects as completed?** The Sector reports notes that projects in Nyandarua and Machakos Prisons are completed but they have attracted pending bills. However, the most recent Audit Reports for FY 2022/23 reveal that through a physical verification of these two facilities the projects were abandoned and are yet to be completed.

   The OAG notes that the department has so far spent Kshs 29 million and 13 million in Nyandarua and Machakos respectively. These projects are at different levels of completion and the OAG notes that it was not possible to confirm that these projects will be completed in the stipulated timeline to deliver the intended services and value for money.

   Recommendation

   At a time when the government is working towards achieving fiscal consolidation, it is important for the department to make completion of these projects a priority. This will ensure that there is value for money.

3.7 The Agriculture, Rural, and Urban Development (ARUD) Sector

3.7.1 Overview

The Agriculture, Rural, and Urban Development (ARUD) Sector saw its budget cut by 12 percent this year, suggesting reduced prioritization, although it is in the BETA model of the Kenya Kwanza Government. This decrease was not evenly distributed, as three sub-sectors have received budget increments while the other two are slated for budget cuts. The State Department for Crop Development received a large (27 percent) reduction, when compared to the previous year's allocation. The State Department for the Blue Economy and Fisheries and the National Lands Commission have both received budget boosts of 13 percent and 12 percent, respectively. Among the priorities for the medium term, the sector is expected to deliver more than double the number of beneficiaries of subsidized fertilizer from Ksh. 1.37 million in the 2020/2021-2022/22 to Ksh. 4.16 million farmers and deliver a tenfold increase in geo-referenced land parcels over the next the medium term. The additional sector targets seem not to have been supported with enhanced funding, which reduces the probability of achievement. The Government needs to match the KPIs with the required funding to increase the chance of realization of the sector targets.

3.7.2 Key Messages for FY 2024/25

1. It is imperative for the Government to prioritize achieving fiscal independence for SAGAs within this sector, aligning with the fiscal consolidation

agenda. SAGAs providing paid services should gradually increase their AIA while reducing reliance on exchequer funds, thereby bolstering fiscal consolidation efforts.

2. The Government should consider maintaining the initial budget allocation of Ksh 60 billion of the Crop Development sub-sector in the FY 2023/24 rather than reduce to just under Ksh 48 billion in FY 2024/25 for it to effectively deliver on the key priority programs such as fertilizer subsidy.
3. To ensure the success of the fertilizer subsidy program, the Government must integrate input subsidy with the national irrigation program to mitigate the risks of drought. Synergy between the Crop Development and Management MDA and the State Department for Irrigation is essential.
4. Even though the Government is implementing austerity measures, it is crucial to support this sector with resources to deliver on the critical priorities. Unexpectedly, some key departments charged with the mandate of delivering capital intensive programs such as the fertiliser subsidy are facing budget cuts.

3.7.3 Previously Raised and Persistent Budget Issues

The State Department for Livestock Development continues to receive the highest budget share against poor performance in absorption and KPI achievement. The sector had an absorption rate of 99 percent for recurrent and 73 percent in development in the FY 2022/23, but it has received a 4 percent increment in the FY 2024/25. However, with an absorption rate of 73 percent for development budget, it is highly unlikely that the MDA will absorb the enhanced allocation if disbursed. The half year report shows that the MDA has only absorbed 17.8 percent of its budget. It thus follows that the sector may not consume its entire Ksh 14.98 billion budget for the current financial year given the past trend. A portion of the budget should be given to the state department for Crop Development, since it had a good absorption rate (95 percent) in FY 2022/23 in order for it to implement the fertilizer subsidy and other priority programs until enough capacity to absorb a higher budget is built within the Livestock Development Department.

The ARUD sector failed to address pending bills in the FY 2022/23 despite this being a a point of concern in the previous financial year. The sector has accumulated more pending bills with the state department for Crops Development having the most pending bills as 89 percent of the total sector pending bills pending bills are held by this MDA alone. By the end of June 2022, the Sector had combined pending bills of Ksh 17.09 Billion which has increased by 5 percent to Ksh 17.97 Billion by end of June, 2023. Failure to settle pending bills during the year to which they relate distorts budget implementation for the subsequent fiscal year as it forms part of new financial year obligations. Furthermore, pending bills hold up capital of the suppliers whose businesses are adversely affected by cash flow crunches. The sector should as a matter of priority address the pending bills.

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3.7.4 Review of Financial and non-financial Performance in FY2022/23

There have been remarkable improvements in the performance of KPIs against the budget absorption rates in the FY 2022/23 following the concerns raised last year. As shown in Table 19, all the sub-sectors improved on KPIs in the FY 2022/23 apart from State Department for Blue Economy and Fisheries which recorded improvement from 40 percent to 60 percent of KPIs achievement as shown in Table 19. For instance, the Kenya Fish Services, a SAGA under this sub-sector planned to stock 350,000 fish into natural and man-made water bodies around the country but only managed to stock 140,000 fish. The sub-sector decries delays in procurements, delayed exchequer releases and budget cuts but proper planning and setting of realistic KPIs should be made in order to mitigate these challenges given their perennial nature. Similarly, the Agricultural Research & Development sub-sector recorded just a 1 percentage point improvement from the previous 50 percent absorption rate. The MDA attributes the underperformance to drought which impacted on KALRO crop trials which failed to meet the KEPHIS standards for approval as well the budget cuts. Further, the MDA had poor absorption rate for development expenditure, reaching just 61 percent compared to the recurrent expenditure which stood at 165 percent in the FY 2022/23. If the low absorption rate for development expenditure persists, then the sector will not be able to improve the research infrastructure.

Table 19: ARUD Sector performance of financial and non-financial indicators for FY 2022/23

Sector/Vote/Programme Details	2022/23 Approved Budget			2022/23 Actual Expenditure			Absorption Rate			% KPI Achieved	Last KPI
	Rec	Dev.	Total	Rec	Dev.	Total	Rec	Dev.	Total		
AGRICULTURE, RURAL & URBAN DEVELOPMENT											
State Department for Lands and Physical Planning	**3,021**	**1,271**	**4,292**	**2,960**	**1,270**	**4,230**	**98%**	**100%**	**99%**		
Land Policy and Planning	3,021	1,271	4,292	2,960	1,270	4,230	98%	100%	99%	93%	55%
State Department for Livestock Development	**4,407**	**4,370**	**8,777**	**4,354**	**3,205**	**7,559**	**99%**	**73%**	**86%**		
Livestock Resources Management and Development	4,407	4,370	8,777	4,354	3,205	7,559	99%	73%	86%	113%	37%
State Department for Blue Economy and Fisheries	**2,314**	**4,965**	**7,229**	**2,248**	**4,335**	**6,583**	**97%**	**87%**	**91%**		
Fisheries Development and Management	2,072	3,527	5,599	2,019	2,966	4,985	97%	84%	89%	97%	67%
General Administration, Planning and Support Services	225	-	225	218	-	218	97%	0%	97%	-	100
Development and Coordination of the Blue Economy	17	1,388	1,405	11	1,369	1,380	65%	99%	98%	60%	40%
State Department for Crop Development	**14,190**	**35,229**	**49,419**	**15,521**	**31,407**	**46,928**	**109%**	**89%**	**95%**		
General Administration Planning and Support Services	5,405	2,862	8,267	4,284	2,137	6,421	79%	75%	78%	98%	56%
Crop Development and Management	3,300	30,000	33,300	2,266	27,083	29,349	69%	90%	88%	173%	38%
Agribusiness and Information Management	90	2,016	2,106	91	1,974	2,065	101%	98%	98%	94%	0%
Agricultural Research & Development	5,395	351	5,746	8,880	213	9,093	165%	61%	158%	51%	50%
National Land Commission	**1,482**	**-**	**1,482**	**1,481**	**-**	**1,481**	**100%**	**0%**	**100%**		
Land Administration and Management	1,482	-	1,482	1,481	-	1,481	100%	0%	100%	197%	53%
GRAND TOTAL	**25,414**	**45,835**	**71,199**	**26,564**	**40,217**	**66,781**	**105%**	**88%**	**94%**		

Data Source: National Treasury, SWG Report

3.7.5 Analysis of Sector Allocation for FY 2024/25 and Recommendations

The analysis of this sector covers allocations against past performance to establish the veracity of the Government's plan to unlock economic growth and job creation through the ARUD Sector given that it is a core pillar of the BETA model of the Kenya Kwanza Administration. This is also within the broader goal of the fiscal consolidation agenda by the Government. The analysis is anchored by the following four key questions:

How does the Government intend to stimulate the attainment of financial independence of SAGAs in the ARUD sector?

As indicated in Table 20, the Sector has a total of 24 SAGAs which were reported in the sector report of 2023. The SAGAs make up 28 percent of the total Sector budget, but more than half of that is in the form of budget transfers from the exchequer. The most exchequer dependent SAGAs are in the State Department for the Blue Economy and Fisheries which could only meet 1 percent of their budgetary support in form of AIA. Peculiarly, three SAGAs which are expected to provide paid services had no AIA at all. They include: Kenya Fisheries Service (KeFS), Kenya Fisheries Marketing Authority (KFMA) and Fish Levy Trust Fund (FLTF).

The Government thus can prioritize fiscal independence for SAGAs in this sector right from inception which will support the fiscal consolidation agenda in the medium term. The SAGAs should learn from other well performing SAGAs such as Kenya Veterinary Vaccine Production Institute, Kenya Dairy Board and Agricultural Development Corporation which fund their entire budgets through AIA. All SAGAs which render paid services should progressively be required to increase AIA and cut their dependency on exchequer funds. This will greatly support the fiscal consolidation agenda in the medium term.

Table 20: AIA analysis for sagas

S/N	NAME	AIA	AIA AMOUNT	TOTAL SAGA EXPENDITURE	PERCENTAGE USAGE OF AIA		BUDGETED AIA	OUTTURN
	State Department For Livestock Development		**3967.44**	**4731.23**	**84%**			
1	Kenya Leather Development Council (Kldc)	YES	1.24	182.57	1%	1%	1.5	83%
2	Kenya Tsetse And Trypanosomiasis Eradicatication Council(Kenttec)	NO	0	71.3	0%	0%	0	0%
3	Kenya Veterinary Vaccines Production Institute (Kevevapi)	YES	228	228	100%	100%	265	86%
4	Kenya Dairy Board (Kdb)	YES	587.1	589.7	100%	100%	587.1	100%
5	Kenya Veterinary Board (Kvb)	YES	26.4	102.4	26%	26%	38	69%
6	Kenya Animal Genetic Resource Centre (Kagrc)	YES	204	266	77%	77%	230	89%
7	Veterinary Medicice Directorate Council (Vmdc)	YES	75.7	89.26	85%	85%	75.7	100%

S/N	NAME	AIA	AIA AMOUNT	TOTAL SAGA EXPENDITURE	PERCENTAGE USAGE OF AIA		BUDGETED AIA	OUTTURN
8	Kenya Meat Commission (Kmc)	YES	2,845.00	3,202.00	89%	89%	4,177.00	68%
	State Department For The Blue Economy And Fisheries		**20**	**1,947.00**	**1%**			
9	Kenya Marine Fisheries Research Institute	YES	10	1,368.00	1%	1%	10	100%
10	Kenya Fisheries Service (Kefs)	NO	0	488	0%	0%	0	0%
11	Kenya Fisheries Marketing Authority (Kfma)	NO	0	21	0%	0%	0	0%
12	Fish Levy Trust Fund (Fltf)	NO	0	20	0%	0%	0	0%
13	Kenya Fishing Industries Corporation (Kfic)	YES	10	50	20%	20%	12	83%
	State Department For Crop Development		**5465**	**11,975.00**	**46%**			
14	Kenya Agricultural And Livestock Research Organization (Kalro)	YES	874	5,014.00	17%	17%	880	99%
15	Pyrethrum Processsing Company Of Kenya	YES	127	259	49%	49%	254	50%
16	Pest Control Products Board	YES	108	213	51%	51%	140	77%
17	Commodities Fund	YES	325	364	89%	89%	355	92%
18	Agriculture And Food Authority(Afa)	YES	733	2,080.00	35%	35%	781	94%
19	National Biosafety Authority (Nba)	YES	11	156	7%	7%	4	275%
20	Kenya Plant Health Inspectorate Service	YES	1391	1541	90%	90%	1,391.00	100%
21	Bukura Agricultural College	YES	218	388	56%	56%	239	91%

S/N	NAME	AIA	AIA AMOUNT	TOTAL SAGA EXPENDITURE	PERCENTAGE USAGE OF AIA		BUDGETED AIA	OUTTURN
22	Agricultural Development Corporation	YES	1607	1607	100%	100%	2,045.00	79%
23	Tea Board Of Kenya	YES	71	321	22%	22%	93	76%
24	Biosafety Appeals Board	NO	0	32	0%	0%	0.00	0%
	Average					**46%**		**75%**
	Total Expenditure Fy 2022/23			18,653.23				
	Arud Budget			66,781.10				
	% Of Arud Sector			28%				

Data Source: Sector Report For 2023 Page 65

Why are departments with key priorities facing budget cuts while the non-priority ones getting budget increments?

The state department for Crop Development, where food crop production and the fertilizer subsidy are domiciled are the most hit programmes with a total budget cut of 27 percent as shown in Table 21. This MDA has a vital role of increasing agricultural productivity and promoting market access and product development. The MDA surpassed the achievement of the KPIs by 73 percent in the FY 2022/23. A further analysis reveals that the Crop Development and Management sub-program under this Sector will receive a massive budget cut of 49 percent. It is not known why the Government seems to shift away the focus from this sector despite its importance in the economy. The Government should consider retaining its initial budget of Ksh 60 billion as per the FY 2023/23 rather than reduce to Ksh 48 billion in the FY 2024/25.

How will the government enhance the fertilizer subsidy program in the medium term given the previously reported challenges in the administration of the program and the budget cut to the relevant MDA?

Even though farmers benefited from subsidized fertilizer with reduced prices of Ksh 3,500 down from KSh 6,000 per 50kg bag, there were reported challenges of transportation costs from regional/county headquarters to the farm and diversion of fertilizers to non-qualified farmers. Farmers incurred higher costs of acquiring the inputs due to logistical charges from NCPB to farm gates. The Government has set its priorities to deliver last mile access in the FY 2023/24 and the medium but there are no visible resources to deliver on this, although the subsidized price has fallen further to Ksh 2,500 per bag. The key sub-program of Crop Development and Management which is mandated with this useful function doesn't seem to have received enhanced financing to undertake this important exercise. The Government plans to support 4 million farmers with 1.6 million MT[2] of subsidized fertilizers and 9,000 MT of agricultural lime through the e-voucher input subsidy system. However, in the PBB, the indicated subsidized fertilizer to be distributed is 78,000 MT in the FY 2024/25 and 2025/26.

The success of the fertilizer program in the long run will depend on the availability of water given recurrent droughts. Thus, the Government needs to link the subsidy with irrigation both in funding and policy, which is the case now. For the success of the program, the government needs to do two things: One, the Government must provide the requisite resources required to fund the fertilizer program in the BPS. And two, the Government must strive to couple the input subsidy and enhancement of water harvesting/irrigation to mitigate the risk of failing rains. There should be synergy between Crop Development and Management MDA and the State Department for Irrigation in

[2] 2024 Budget Policy Statement. Link

both operation and financing. The benefits of such a move are threefold: first, it would allow for better coordination and integration of irrigation projects with agricultural development plans. Secondly, such a move would provide a close proximity of irrigation experts to agricultural experts and facilitate collaboration and knowledge sharing and maximize policy coherence and optimal utilization of resources. Finally, the Majority of County Governments are already hosting irrigation programs within the agricultural departments.

How will the government transform agriculture, achieve food security and value addition when ARUD is facing a 10 percent budget cut in FY 2024/25?

Kenya, as a signatory to the African Union's commitment, pledges to allocate 10 percent of its annual public spending to the advancement of food and agriculture. This commitment is a fundamental component of the BETA model, essential for uplifting the livelihoods of the majority of Kenyans situated at the lower end of the economic spectrum. Presently, the allocation of funds to agricultural related expenditures remains fragmented in design and execution of programs. For instance, whereas Small Scale Irrigation and Value Addition Project with a value of Ksh 6.8 billion[3] is implemented under this sector, the national irrigation program is implemented under the ministry of water, sanitation and irrigation with an estimated budget of Ksh 125.53 billion in the FY 2023/24 and 127.96 billion in the FY 2024/25. But irrigation development falls inherently within the domain of agriculture, its implementation should be within the sector. Similarly, initiatives such as the development of low-volume rural roads and rural electrification should be integrated into the agricultural framework to enhance agricultural modernization and value addition within the sector. In principle, the establishment of a well-coordinated agricultural sector necessitates deep integration with other complementary development plans to drive effective policy action. A comprehensive stocktaking exercise is imperative to identify and map all directly associated sub-sectors, facilitating multi-sectoral coordination in both budgetary allocations and program implementation processes. It would emerge that the Government is spending close to the 10 percent required but with little success given the uncoordinated program development and implementation in various ministries.

Table 21: ARUD Sector allocations vs requirements per program for FY 2023/24 and 2024/25

Sector Resource Requirement by Programmes	2023/24 BPS ceiling			2024/25 BPS ceiling			% change in allocation	% Share of the Sector Budget		IPF Proposition
	Rec	Dev.	Total	Rec	Dev.	Total		2023/24	2024/25	
AGRICULTURE, RURAL & URBAN DEVELOPMENT	**32,507**	**65,582**	**98,089**	**29,821**	**57,989**	**87,809.6**	**-12%**	**100%**	**100%**	
State Department for Lands and Physical Planning	**3,890**	**5,400**	**9,290**	**4,113**	**5,094**	**9,207**	**-1%**	**9%**	**10%**	
Land Policy and Planning	2,677	3,978	6,655	2,808	4,228	7,036	5%	7%	8%	
Land Information Management	-	1,365	1,365	53	866	919	-48%	1%	1%	
General Administration, Planning and Support Services	1,213	58	1,271	1,252	-	1,252	-2%	1%	1%	
State Department for Livestock Development	**5,678**	**9,306**	**14,984**	**4,529**	**11,038**	**15,566**	**4%**	**15%**	**18%**	**Should get a budget cut**

[3] Full Year OCOB Report for 2022/23.Link

Sector Resource Requirement by Programmes	2023/24 BPS ceiling			2024/25 BPS ceiling			% change in allocation	% Share of the Sector Budget		IPF Proposition
	Rec	Dev.	Total	Rec	Dev.	Total		2023/24	2024/25	
Livestock Resources Management and Development	5,678	9,306	14,984	4,529	11,038	15,566	4%	15%	18%	
State Department for the Blue Economy and Fisheries	2,821	8,986	11,807	3,075	10,503	13,578	13%	12%	15%	
Fisheries Development and Management	2,557	6,665	9,222	2,738	8,437	11,175	17%	9%	13%	
General Administration, Planning and Support Services	253	-	253	294	-	294	14%	0%	0%	
Development and Coordination of the Blue Economy	12	2,321	2,333	43	2,066	2,109	-11%	2%	2%	
State Department for Crop Development	**18,628**	**41,785**	**60,412**	**16,436**	**31,207**	**47,643**	**-27%**	**62%**	**54%**	**Should get an increment**
General Administration Planning and Support Services	5,445	1,533	6,978	7,140	2,546	9,686	28%	7%	11%	
Crop Development and Management	7,805	38,848	46,653	3,706	27,554	31,260	-49%	48%	36%	
Agribusiness and Information Management	146	1,145	1,291	157	780	937	-38%	1%	1%	
Agricultural Research & Development	5,231	259	5,490	5,433	327	5,760	5%	6%	7%	
National Land Commission	**1,490**	**106**	**1,596**	**1,668**	**148**	**1,816**	**12%**	**2%**	**2%**	
Land Administration and Management	1,490	106	1,596	1,668	148	1,816	12%	2%	2%	

3.8 Social Protection, Culture And Recreation (SPCR) Sector

3.8.1 Overview

The Social Protection, Culture and Recreation plays crucial strategic roles in the country's transformation and socio-economic development. These roles include promoting and supporting youth empowerment and development, promoting gender equity and equality, empowering communities and vulnerable groups, safeguarding children's rights, and advancing diverse cultures, arts, and sports.

While the overall sector budget is not changing dramatically this year (a small drop of Ksh 1 billion), there have been notable changes within the sector. The allocation for the State Department for Sports & Arts has seen a modest increase of approximately 4 percent, while the State Department for Culture and Heritage has experienced a substantial increase of around 35 percent. The State Department for Labour also saw a notable uptick of about 12 percent.

Conversely, allocations for certain departments have decreased, with the State Department for Youth Affairs and the Arts witnessing a significant budgetary reduction of approximately 8 percent, the State Department for Social Protection, Pensions & Senior Citizens Affairs decreasing by about 7 percent and that of the State Department for Gender experiencing a marginal decrease of about 0.2 percent. The subsequent analysis will unpack the implication of these budgetary realignments.

3.8.2 Key Messages for FY 2024/25

The SPCR sector plays pivotal roles in achievement Kenya's socio-economic development agenda. However, the analysis reveals discrepancies between budget increments and program priorities, with some programs receiving significant increases despite not being identified as sector or government priorities while some priority programs have experienced budget cuts, raising concerns about the effectiveness of resource allocation. Looking ahead, it is imperative for the government to adopt a more transparent and accountable budgeting process that ensures funds are directed towards programs aligned with national and sectoral development objectives.

3.8.3 Previously Raised and Persistent Budget Issues

In our previous edition of the ANSB, we sought to understand why the sector's absorption rate for recurrent budget is higher than that of the development budget in the FY2021/22 budget. For example, in the fiscal year 2021/22, the social development and children services programme absorbed 46 percent of its development budget, while the manpower development programme absorbed 54 percent of its development budget. Additionally, both sectors nearly fully absorbed their recurrent budgets during this period. The budget execution for the FY 2022/23 still shows the same disparities. The two programmes absorbed 33 and 64 percent of their development budgets respectively in the FY 2022/23. It is crucial for the government to be held accountable for ensuring high absorption rates across all budget categories. By asking, this question, we highlight the need for transparency and efficiency in budget utilization. The government has a responsibility to allocate resources effectively, ensuring that funds designated for development projects are released in good time and utilized efficiently to drive sustainable growth and progress.

3.8.4 Review of Financial and Non-financial Performance for FY 2022/23

Table 22 and 23 highlight the priority programmes for the sector for the FY 2024/25 as enumerated in the 2024 BPS and the 2024 Sector Working Group report for the sector. It also details their performance as indicated by the KPIs achievement rates and the absorption rates for the FY 2022/23.

Table 22: Priority programmes, % change in allocation, KPIs achieved (%) and Absorption rate

Ksh. Millions	Priority/ Not (FY 24/25)	% change in allocation	KPIs achieved (%) (FY 22/23)
SOCIAL PROTECTION, CULTURE AND RECREATION		**-1%**	**86%**
State Department for Sports		**3.7%**	
Sports	✔	3.7%	121.4%
State Department for Culture and Heritage		**34.9%**	
Culture/ Heritage	✔	-3.7%	117.7%
General Administration, Planning and Support		86.1%	56.3%
Library Services		0.6%	114.8%
State Department for Youth Affairs and the Arts		**-8.1%**	
Youth Empowerment Services		76.0%	62.6%
Youth Development Services	✔	-5.2%	70.6%
General Administration, Planning and Support Services		-1.0%	68.5%
The Arts	✔	-18.2%	133.0%
State Department for Labour		**12.2%**	

Ksh. Millions	Priority/ Not (FY 24/25)	% change in allocation	KPIs achieved (%) (FY 22/23)
General Administration Planning and Support Services		-33.0%	69.6%
Labour, Employment and Safety Services		16.0%	
Manpower Development, Industrial Skills & Productivity Management	✅	20.4%	66.2%
State Department for Social Protection, Pensions & Senior Citizens Affairs		**-7.4%**	
Social Development and Children Services	✅	-0.9%	86.5%
National Social Safety Net	✅	-9.0%	75.8%
General Administration, Planning and Support Services		79.1%	79.8%
State Department for Gender and Affirmative Action		**-0.2%**	
Community Development		0.2%	43.3%
Gender Empowerment		-6.4%	109.9%
General Administration, Planning and Support Services		57.9%	100.0%

Data Source: Author's Compilation from the National Treasury, 2024 SWG report and draft BPS

Government under the BETA agenda is committed to promote investments in both the digital superhighway and the creative economy. This is because the industry can contribute significantly to the fashion industry and value addition to leather and crafts export. This industry also houses the performing and visual artists. To integrate the creative economy into Brand Kenya and commercial diplomacy, the government aims at appointing prominent Kenyan artists and figures from the creative sector as cultural ambassadors. Given that it is a priority agenda, it is expected that budget allocations would be aligned to this item. However, the Arts programme under the State Department for Youth Affairs, which houses the creative economy, has experienced a significant budget cut of 18 percent. Further, the budgetary allocation to the programme as a share of the sector is only 1 percent as compared to the 2 percent share in the FY 2023/24. This share does not reflect the programme's supposed priority status.

Table 23: Social Protection Sector Budget Absorption Rate (%) FY 2022/23

Ksh. Millions	Absorption Rate		
	Rec	Dev.	Total
SOCIAL PROTECTION, CULTURE & RECREATION	**93%**	**82%**	**90%**
State Department for Sports	**91%**	**87%**	**88%**
Sports	94%	87%	88%
State Department for Culture and Heritage	**75%**	**99%**	**75%**
Culture Development	70%	99%	70%
Library Services	89%	0%	89%
GAPSS	97%	0%	97%
State Department for Youth Affairs and the Arts	**99%**	**75%**	**88%**
Youth Empowerment Services	99%	49%	79%

Ksh. Millions	Absorption Rate		
	Rec	Dev.	Total
Youth Development Services	99%	85%	90%
GAPSS	99%	0%	99%
The Arts	80%	0%	80%
State Department for Labour and Skills Development	**99%**	**56%**	**94%**
Promotion of best labour practices	99%	0%	92%
Manpower Development, Employment and Productivity Management	100%	64%	93%
GAPSS	99%	0%	99%
State Department for Social Protection, Pensions & Senior Citizens Affairs	**94%**	**63%**	**92%**
Social Development and Children Services	88%	33%	83%
National Safety Net Program	95%	67%	93%
GAPSS	86%	0%	86%
State Department for Gender and Affirmative Action	**96%**	**85%**	**88%**
Community Development	100%	100%	100%
Gender Empowerment	96%	34%	69%
GAPSS	98%	0%	98%

Data Source: Author's Compilation from the National Treasury, 2024 SWG report

Why would the government set priority programmes and fail to adequately fund them?

Despite National Social Safety Net, Youth Development Services, Culture/ Heritage and Social Development and Children services sub programmes being priority sub programmes for this sector (Table 22), the subprogrammes have experienced notable budget cuts of 9, 5, 4 and 1 percent respectively as shown in Table 22. As already noted, the Arts programme under the State Department for Youth Affairs has experienced a significant budget cut of 18 percent (see Table 23).

KPI Analysis

The average KPI achievement rate for the sector was 86 percent, compared to the absorption rate of 90 percent for the budget. The targets for most of the KPIs in the Sports programme were either 100 percent achieved or surpassed because of funding and collaborations with strategic partners such as state agencies NG-CDF and Sports Federations, Ministry of Education and the County Governments. Precisely, out of the twenty-four KPIs that had been set for the programme, the targets for nine of them were surpassed, targets for eight KPIs were 100 percent achieved while seven were partially achieved. The rate of achievement was as low as 7.14 percent for the KPI "No. of Sports and recreational facilities funded." Infrastructure projects in this programme such as upgrade of the Nyayo National Stadium, upgrade of Kinoru Stadium and Moi international sports Centre were also achieved.

The Social Safety Net program has been pinpointed as being a priority programme for the SPRC sector. The programme is pivotal in nurturing human capital and upholding social justice. As critical as the programme is, its KPI achievement rate in the FY 2022/23 is at an average of 78 percent against a budget absorption rate of 93 percent in the same year. This implies that even with 100 percent absorption rate, the programme may not achieve 100 percent of its KPIs. However, this programme received a 9 percent budget cut reflecting the government's lack of commitment to prioritize the protection of vulnerable populations when making budgetary decisions.

Why do we have budgetary allocations for activities that have no KPI set?

Well-defined KPIs empower organizations to track performance, enhance results, and attain success in fulfilling their mission and goals. They also aid in determining the amount of resources to be invested for achievement of targets. There are several subprogrammes where the KPI targets have not been set but at the end of the year they are reported to be achieved. How so? For instance, in the State Department for Culture and Heritage, the subprogrammes Promotion of Kenyan Music and Dance and Library services have no single KPI targets set against them. How does the government go about allocating resources to such activities?

Recommendation: Clear and measurable Key Performance Indicators (KPIs) should be established for all activities receiving budgetary allocations within the sector, ensuring alignment with overarching sectoral priorities, goals and objectives.

3.8.5 Analysis of Sector Allocation for FY2024/25 and Recommendations

This section links past financial and non-financial performance highlighted in Tables 22 and 23 to the 2024 BPS ceilings set for the FY 2024/25. The discussion further focuses on the extent to which the FY2024/25 budget allocations aligns with the sector priorities highlighted in the 2024 BPS.

Why would the government allocate more to a programme that barely absorbs its budget?

Manpower Development, Employment and Productivity Management recorded an absorption rate of 64 percent as indicated in Table 23 for the capital expenditures which was commensurate to its KPI achievement rate of 66.2 percent (Table 22). However, despite the low absorption and performance rates, the programme received a 20 percent budget increment. The capital budget for the program was increased by approximately 439 percent, despite the programme only absorbing less than two-thirds of its development budget in the FY 2022/23.

Recommendation: Based on the budget analysis revealing a discrepancy between the absorption rate and budget increment for the Manpower Development, Employment, and Productivity Management program, it is recommended that the government conducts a thorough review of its budget allocation process. Further, it is crucial for the government to ensure that budget increments are aligned with program performance and absorption capacity to optimize resource utilization and achieve desired outcomes. Therefore, the recommendation is to implement a more rigorous and evidence-based approach to budget allocation, considering factors such as program performance, absorption capacity, and alignment with strategic objectives.

What factors does the government consider when deciding which programs to increase or decrease funding for?

In the FY 2022/23 the approved budget estimates for the Labour, Employment and Safety Services programme was Ksh 1.2 billion. However, the 2024 BPS increased this budget by about 41 percent (Table 24) to Ksh 1.7 billion. This programme is neither a priority for the sector or the government. It is therefore paramount that we understand why a programme that is not a priority receives such a huge budget increment when priority programmes such as Social Development and Children Services experience budget cuts. Notably, the Manpower Development, Industrial Skills & Productivity Management programme achieved 66 per cent of its KPIs against a budget absorption rate of 93 percent. Despite this indication of inefficiency this programme is set to receive 20 percent budget increase.

Recommendation: The recommendation stemming from the analysis of the budget allocation criteria could be the implementation of a more transparent and accountable budget allocation process. This would enable the government to enhance accountability, improve resource allocation efficiency, and ensure that funding is directed towards programs that deliver the greatest impact and value for money.

Table 24: Social Protection Resource Budget Allocation, Ksh Millions

Sector/Vote/Programme Details	Approved Estimates 2023/24	2024/25 BPS Ceilings	% change in allocation	% Share of the Sector Budget 2023/24	% Share of the Sector Budget 2024/25
Social Protection, Culture and Recreation	**72,853.6**	**71,901.8**	**-1%**	**100%**	**100%**
State Department for Sports	**17,612.6**	**18,270.3**	**4%**	**24%**	**25%**
Sports	17,612.6	18,270.3	4%	24%	25%
State Department for Culture and Heritage	**2,816.9**	**3,800.8**	**35%**	**4%**	**5%**
Culture/ Heritage	2,474.7	2,383.8	-4%	3%	3%
GAPSS	203.5	378.7	86%	0%	1%
Public Records Management	138.7	103.9	-25%	0%	0%
Library Services	-	553.9		0%	1%
State Department for Youth Affairs and the Arts	**3,887.7**	**3,570.9**	**-8%**	**5%**	**5%**
Youth Empowerment Services	546.8	962.6	76%	1%	1%
Youth Development Services	1,271.0	1,205.5	-5%	2%	2%
GAPSS	329.0	325.7	-1%	0%	0%
The Arts	1,316.7	1,077.1	-18%	2%	1%
library Services	424.1	-	-100%	1%	0%
State Department for Labour	**4,503.8**	**5,052.4**	**12%**	**6%**	**7%**
GAPSS	591.5	396.4	-33%	1%	1%
Labour, Employment and Safety Services	1,216.4	1,411.1	16%	2%	2%
Manpower Development, Industrial Skills & Productivity Management	2,695.9	3,244.9	20%	4%	5%
State Department for Social Protection, Pensions & Senior Citizens Affairs	**38,230.1**	**35,418.9**	**-7%**	**52%**	**49%**
Social Development and Children Services	4,599.9	4,559.4	-1%	6%	6%
National Social Safety Net	33,336.4	30,333.4	-9%	46%	42%
GAPSS	293.7	526.1	79%	0%	1%
State Department for Gender	**5,802.5**	**5,788.5**	**0%**	**8%**	**8%**
Community Development	3,036.4	3,043.4	0%	4%	4%
Gender Empowerment	2,521.6	2,359.1	-6%	3%	3%
GAPSS	244.5	386.0	58%	0%	1%

Data Source: National Treasury, SWG Report

3.9 Environment Protection, Water And Natural Resources (EPWNR) Sector

3.9.1 Overview

In FY 2024/25, the Environment sector received a 2 percent increase in its budget from Ksh 126 billion in FY 2023/24 to Ksh 128 billion. Some programs have received significant increments while others are being impacted by fiscal consolidation. For example, the Water Rehabilitation and Conservation, Water Resources Management, and Water Storage and Flood Control programmes have received notable increases of 621 percent, 40 percent, and 15 percent respectively. On the other hand, the Geological Survey and Geoinformation Management programme and the Water Harvesting and Storage for Irrigation programme have the highest budget cuts at 59 percent and 23 percent respectively.

3.9.2 Sector Priorities in the 2024 BPS

The 2024 Budget Policy Statement BPS identifies environment and climate change as key enablers to be prioritized to enhance the attainment of the Bottom-Up Economic Agenda. Priority focus has been given to Natural Resources Including Minerals & Forestry as a key value chain area for implementation of the agenda.

The sector priorities as stated in the BPS include water and sewerage infrastructure development, access to clean water and sanitation, environmental conservation, and reforestation.

3.9.3 Key Messages for FY 2024/25

1. Large-scale projects like the Galana Kulalu Irrigation development should undergo thorough viability assessments before initiation or continuation. Factors such as input costs, operational expenses, and potential challenges must be carefully evaluated to ensure long-term sustainability. Consideration of alternative approaches or scaling down activities may be necessary if projects prove economically unfeasible.

2. The Environment sector needs to address the recurring issue of delayed signing of construction contracts, which has hindered project performance over multiple fiscal years. Implementing measures such as pre-approved templates, standardized procedures, and dedicated personnel for contract negotiations can enhance efficiency. Clear timelines and accountability mechanisms are essential for ensuring timely execution.

3. Inconsistencies in reporting programs within the Irrigation and Land Reclamation program raise concerns about potential corruption or inefficiencies. Establishing clear KPIs and ensuring alignment across departments will enhance transparency and accountability. Implementing effective monitoring and evaluation mechanisms is crucial for tracking expenditure and achieving departmental objectives.

4. There is a need to align KPIs, targets, and achieved targets across relevant sectors to ensure coherence and effectiveness in achieving departmental objectives. Regular communication, collaboration, and monitoring are essential for addressing inconsistencies and improving performance. Additionally, enhancing support services in departments like Wildlife and Forestry will contribute to overall functionality and service delivery.

3.9.4 Previously Raised and Persistent Budget Issues

This section reviews the level of responsiveness by the government to several concerns raised in the 2023 Shadow Budget.

Despite progress, the issues that were previously brought up have not been resolved.

1. **The government should address underspending of budgets, particularly their development budgets.**

   The sector had an absorption rate of 85 percent of their development budget for the FY 2021/22. The absorption rate dropped from 85 percent to 71 percent in the FY 2022/23.

2. **While the sector managed to accomplish some of its Key Performance Indicators as shown in Table 25 below, others were not met despite the programs registering high absorption rates.**

   The Department for Irrigation, for example, had an absorption rate of 83 percent for FY 2022/23 while in the target KPIs the department achieved only 13 out of 32 KPIs with 7 missing targets.

3.9.5 Analysis of Financial and Non-financial Performance in FY 2022/23

Overall, in FY 2022/23, all the state departments within the sector achieved absorption rates above 80 percent of their total budgets, apart from the Water and Sanitation

Table 25: Budget absorption and Percentage of KPIs achieved.

Program	2022/23 Approved Budget			2022/23 Actual Expenditure			Absorption Rate			Average KPI Achievement for each programme(%)
	Rec	Dev.	Total	Rec	Dev.	Total	Rec	Dev.	Total	
State Department for Irrigation	**224**	**3,946**	**4,070**	**220**	**3,164**	**3,384**	**98%**	**80%**	**83%**	**77%**
Irrigation and Land Reclamation	192	815	1,007	192	685	877	100%	84%	87%	80%
Water Resources Management	-	801	801	-	791	791	0%	99%	99%	_
Water Harvesting and Storage for Irrigation	32	2,330	2,262	28	1,688	1,716	88%	72%	76%	73%
Environment and Forestry Sub-sector	**9,337**	**4,368**	**13,705**	**8,262**	**3,663**	**11,925**	**88%**	**84%**	**87%**	**69%**
GAPSS	701	-	701	663	-	663	95%	0%	95%	75%
Environment Management and Protection.	2,184	729	2,913	1,890	411	2,301	87%	56%	79%	71%
Meteorological Services	1,015	307	1,322	985	177	1,162	97%	58%	88%	93%
Forest Resources Conservation and Management	5,437	3,332	8,769	4,724	3,075	7,799	87%	92%	89%	35%
Water and Sanitation Sub-sector	**6,348**	**60,596**	**66,943**	**6,138**	42,237	**48,261**	97%	**70%**	**72%**	**68%**
GAPSS	645	491	1,136	683	410	981	106%	84%	86%	14%
Water Resources Management	1,708	11,220	12,928	1,942	8,939	10,881	114%	80%	84%	81%
Water and Sewerage Infrastructure Development	3,411	33,247	36,658	3,017	20,569	23,585	88%	62%	64%	78%
Irrigation and Land Reclamation	553	6,846	7,399	469	5,046	5,515	85%	74%	75%	_
Water Storage and Flood Control	-	7,555	7,555	-	6,082	6,082	0%	81%	81%	100%
Water Harvesting Storage for Irrigation	31	1,237	1,267	27	1,191	1,217	87%	96%	96%	_
Mining Sub-sector	**238**	**131**	**369**	**228**	**122**	**349**	**96%**	**93%**	**95%**	**57%**
Mineral Resources Management	24	60	84	20	55	75	83%	92%	89%	68%
Geological Survey & Geo-information Management	27	71	98	26	67	92	96%	94%	94%	49%
GAPSS	187	-	187	182	-	182	97%	0%	97%	54%
Wildlife Sub-sector	**9,363**	**367**	**9,730**	**9,349**	**171**	**9,520**	**100%**	**47%**	**98%**	**62%**
Wildlife Conservation and Management	9,363	367	9,730	9,349	171	9,520	100%	47%	98%	62%
Forestry Sub-sector	**2,392**	**617**	**3,009**	**2,389**	**381**	**2,770**	**100%**	**62%**	**92%**	**58%**
Environment Management and Protection	-	4	4	-	4	4	0%	100%	100%	50%
Forests Resources Conservation and Management	2,392	613	3,005	2,389	377	2,766	100%	62%	92%	66%
GRAND TOTAL	**27,902**	**70,025**	**97,826**	**26,586**	**49,738**	**76,209**	**95%**	**71%**	**78%**	**65%**

Data Source: National Treasury, Sector Working Group Report sub sector which had an absorption rate of 72 percent of its total budget. Despite the high budget absorption rates, the departments had low achievement of KPIs which were all below 80 percent.

The Water and Sewerage Infrastructure Development programme had the lowest absorption rate of 64 percent. The absorption rate for recurrent budget was 88 percent while development budget was 62 percent. A further look at the Environment sector working group report indicates that the programme had difficulties implementing the water and sewerage projects citing delayed disbursement of funds and budget cuts. These projects included Athi WWDA Projects which was not implemented due to late disbursement of funds and the Dongo- Kundu Water Supply Phase II whose budget was cut to zero in FY 2022/23.

The mining sub sector, despite absorbing 95 percent of its total budget, only achieved 57 percent of its Key Performance Indicators on average. This also applies to the Wildlife and Forestry sub sectors which had absorption rates of 98 percent and 92 percent respectively while only achieving 62 percent and 58 percent of their KPIs respectively.

3.9.6 Analysis of Sector Allocation for FY 2024/25 and Recommendations

Overall, in FY 2022/23, all the state departments within the sector achieved absorption rates above 80 percent of their total budgets, apart from the Water and Sanitation sub sector which had an absorption rate of 72 percent of its total budget. Despite the high budget absorption rates, the departments had low achievement of KPIs which were all below 80 percent.

The Water and Sewerage Infrastructure Development programme had the lowest absorption rate of 64 percent. The absorption rate for recurrent budget was 88 percent while development budget was 62 percent. A further look at the Environment sector working group report indicates that the programme had difficulties implementing the water and sewerage projects citing delayed disbursement of funds and budget cuts. These projects included Athi WWDA Projects which was not implemented due to late disbursement of funds and the Dongo- Kundu Water Supply Phase II whose budget was cut to zero in FY 2022/23.

The mining sub sector, despite absorbing 95 percent of its total budget, only achieved 57 percent of its Key Performance Indicators on average. This also applies to the Wildlife and Forestry sub sectors which had absorption rates of 98 percent and 92 percent respectively while only achieving 62 percent and 58 percent of their KPIs respectively.

Overall, the Environment sector received a 2 percent budget increase in its allocation for the FY 2024/25 budget. Some state departments received budget cuts while others received increased budget allocations. The State Department for Mining, State Department for Environment & Climate Change, and State Department for Irrigation received budget cuts of 40 percent, 2 percent, and 1 percent respectively while the State Department for Wildlife, State Department for Forestry, and the State Department for Water & Sanitation had budget increases of 14 percent, 4 percent and 3 percent respectively.

The Water and Sewerage Infrastructure Development programme received a budget cut of 7 percent in the FY 2024/25 despite the government's focus on the construction of dams, water and sewerage projects with mega projects such as the 100 dams project. According to the 2024 BPS, the sector plans to complete 70 water and sewerage projects across the county in FY 2024/25 and the medium term which raises the question of whether this will be achieved with the budget cut to this programme.

The General Administration Planning and Support Services programmes received budget cuts of 33 percent, 4 percent, 25 percent, and 21 percent for the Water & Sanitation, Irrigation, Environment & Climate Change, and Mining sub-sectors respectively. While reducing recurrent spending is a commendable move towards fiscal consolidation, it is necessary to take precautions to ensure that service delivery within those departments is not affected.

An in-depth review of the Environment sector budget proposals for the FY 2024/25 has revealed the following issues:

1. **Why is delayed signing of construction contracts cited for non-performance from FY 2020/21 - FY 2022/23 and how can this process be improved?** Key Performance

Table 26: Environment Protection, Water and Natural Resources (EPWNR) Sector Resource Budget Allocation, Ksh Millions

Sector/Vote/Programme Details	Approved Estimates 2023/24	2024/25 BPS Ceilings	% Change in Allocation
Environment, water protection and natural resources sector	**125,536.8**	**127,965.0**	**2%**
State Department for Water & Sanitation	**64,934.4**	**67,048.0**	**3%**
Water and Sewerage Infrastructure Development	48,629.7	45,329.0	-7%
Water Resources Management	14,865.4	20,758.0	40%
General Administration Planning and Support Services	1,439.3	961.0	-33%
State Department for Irrigation	**24,185.8**	**23,997.0**	**-1%**
Irrigation and Land Reclamation	20,100.3	19,915.0	-1%
Water Storage and Flood Control	2,377.5	2,730.0	15%
Water Harvesting and Storage for Irrigation	1,551.2	1,202.0	-23%
General Administration Planning and Support Services	156.7	150.0	-4%
State Department for Forestry	**14,480.7**	**15,031.0**	**4%**
Forests Management and Water Towers Conservation	14,480.7	15,031.0	4%
State Department for Wildlife	**11,604.6**	**13,242.0**	**14%**
Wildlife Conservation and Management	11,604.6	13,242.0	14%
State Department for Environment & Climate Change	**6,551.7**	**6,398.0**	**-2%**
Environment Management and Protection	4,275.4	3,897.0	-9%
Meteorological Services	1,492.2	1,430.0	-4%
Water Rehabilitation and Conservation	75.0	541.0	621%
General Administration Planning and Support Services	709.0	530.0	-25%
State Department for Mining	**3,779.6**	**2,249.0**	**-40%**
Geological Survey and Geoinformation Management	2,407.0	990.0	-59%
General Administration Planning and Support Services	879.1	697.0	-21%
Mineral Resources Management	493.5	562.0	14%

Data Source: 2024 Budget Policy Statement

Indicators (KPIs) related to the number of acres of irrigation area for the smallholder irrigation program have consistently been low and the sector blames this on delayed signing of contracts. While such an explanation may be credible in one year, it is hard to understand why contracts are delayed every year. In FY 2020/21 the sector initially aimed for 450 acres as the land put under irrigation. , but no targets were met. A subsequent adjustment to 350 acres in 2022/23, with no target in 2021/22 also yielded no recorded achievement. This trend raises concerns about the ability to address underlying issues since FY 2020/21. There is a need to implement measures such as pre-approved templates, standardized procedures, and dedicated personnel to oversee contract negotiations and signings. Additionally, the government should establish clear timelines and accountability mechanisms to ensure timely execution.

2. **Why does the Galana Kulalu project continue trials after nine years and is it still viable for Kenya?** The Galana Kulalu Irrigation development project did not meet its target for planted acres. Out of the 5,100 acres aimed for, only 535 were achieved. This shortfall was attributed to scaling down farming activities due to high input and operational costs. Consequently, the project was handed over to a private investor

for trials on the same 535 acres as part of the Project Development Phase, intending to finalize a concession agreement. The Irrigation sub-sector should prioritize conducting thorough viability assessments before initiating or continuing large-scale projects like the Galana Kulalu Irrigation development. The government should assess factors such as input costs, operational expenses, projected yields, and potential challenges to determine the project's long-term viability and sustainability. The government should consider alternative approaches or scaling down activities if the project proves economically unfeasible.

The Galana Kulalu Irrigation development project, encompassing a 10,000-acre model farm, has utilized 90 percent of the estimated project cost, totaling Ksh 7.9 billion out of 8.8 billion. According to the sector the project has a 97 percent completion rate of the civil works. With this exceptional progress, the project fails to adequately address the actual yield compared to expectations. Moreover, in FY 2022/23 the project had been handed over to a private investor for trials on 535 acres out of the 5100 acres targeted. However, there's a notable absence of detailed information regarding the yield produced and the specific crops cultivated, which begs the question: what exactly was produced during this phase? This discrepancy between the reported completion rate and the actual achievements in terms of achieving the key performance indicators (KPIs) prompts us to question how a project can be deemed 97 percent complete when the last recorded achievement was less than 10 percent of the targeted goals. Such disparities warrant a thorough review and clarification to ensure accountability and effective resource allocation moving forward.

3. **Why are there inconsistencies in reporting the programmes within the Irrigation and Land Reclamation program?** In FY 2023/24, the Irrigation and Land Reclamation program falls under the State Department of Irrigation. However, in FY 2022/23, the program is divided between two departments: Irrigation, and Water and Sanitation, with full budget allocations and absorption rates in both. Nonetheless, in the Sector Working Group (SWG) report for 2022/23, under the Water and Sanitation sub-sector, the program lacks Key Performance Indicators (KPIs) and achieved targets. There are no established benchmarks indicating the allocation of absorbed funds, raising inquiries about the key performance indicators (KPIs) driving the absorption rate in FY 2022/23 and suggesting the possibility of a dubious sub-sector, hinting at potential corruption or duplicative accounting entries.

4. **What specific technical challenges are hindering the establishment of County Climate Change Funds (CCCF) in the eight counties that underachieved the set target, and how can these challenges be addressed within the allocated budget?** Given that 8 out of 45 counties did not establish the CCCF it is imperative to address the technical challenges hindering progress in these areas.

5. **What accountability mechanisms will be implemented to monitor expenditure in national tree planting campaigns, given the significant shortfall in reporting highlighted by the Auditor General in FY 2022/23?** The Ministry's approved annual work plan allocated Kshs.150 million for the campaign in 47 counties, including launching tree planting campaigns during the long and short rains, monitoring and evaluating tree planting campaigns, and organizing international celebrations. However, the directorate spent Kshs.141 million without providing monitoring and evaluation reports, making it impossible to confirm the expenditure. Proper M&E systems need to be put in place prior to the next budget year.

6. **Why isn't the government prioritizing a department crucial to service delivery, and how do they intend to achieve the set KPIs without adequate manpower?** It is intriguing that the Wildlife and Forestry departments lack General Administration, Planning & Support Services. This discrepancy is evident in the 2024/25 budget ceiling, where these departments lack any budget allocations for such essential services. This lack of emphasis on general administration is inconsistent with the imperative of effective service delivery across sectors. The question then arises:

04

Fiscal Decentralization

4.1 Introduction

This section illuminates fiscal performance of county governments and gives recommendations on transfer of functions with a goal to inform how devolution can be strengthened. We emphasize the need to expedite costing of functions, clear stipulation and full devolvement of contentious functions, mostly in agriculture and water and sanitation. According to the IGRTC, MDAs are still performing county functions with an estimated cost of Ksh 272 billion.

4.2 Revenue Performance

The 2024 BPS proposes a modest increase of 1.4 percent in equitable share which is much lower than the 4 percent increase in the total budget, In the past, counties have relied heavily on equitable share form the national government. In FY 2022/2023, counties collected total revenue of 37.8 billion against a target of 57.4 billion, funding only 8 percent of their total budget from own sources. On the other hand, The Commission on Revenue Allocation observed that counties collected only 18 percent of potential revenue based on their economic capacities. Although some counties have in the past exceeded their revenue targets, the targets are often set below actual potential, due to limited capacity to set realistic targets, and lack of comprehensive datasets to inform projections, thus resulting in widespread underperformance.

Delays in disbursing funds from the national government adversely affect county operations, pressing more on need to boost county revenue generation efforts.

4.2.1 Own Source Revenue (OSR) Performance

The success of devolution in Kenya is to a good extent dependent on counties increasing their revenues over time, but counties have struggled to meet their own-source revenue targets. County governments targeted to collect Ksh 57.4 billion in FY 2022/23 but collected Ksh 37.8 billion, which was 66 percent of target (Table 28). The Commission on Revenue Allocation (CRA) estimates that counties also collected only 18 percent of their potential revenue in the FY 2022/23 (based not on their targets, but the nature of their economies).

The reported revenue performance is reflective of inadequate revenue mobilization effort among counties, potential gaps in revenue administration, and optimistic revenue forecasts that are not reflective of county's effort in mobilizing OSR.

The underperformance in OSR is undesirable as it compromises service delivery. This is the case because a portion of a county's budget is unfunded when OSR underperforms, and counties fail to make in-year adjustments to their budget to reflect their actual OSR collections. Development spending is most affected as counties prioritize recurrent spending.

Table 27: County budgeted revenue vs. outturn FY 2019/20 – 2022/23

Revenue Source	2019/20	2020/21	2021/22	2022/23	Total
Equitable Share	287.0	317.0	340.0	370.0	1314.0
Equitable share as a					
% of total revenue	70%	73%	78%	79%	73%
Conditional Grants from national government and development partner	38.0	34.0	12.0	16.2	100.2
Conditional Grants as a % of total revenue	9%	8%	3%	3%	7%
Own Source Revenue (OSR)	36.0	34.0	36.0	37.8	143.8
OSR as a% of total revenue	9%	8%	8%	8%	8%
Carry over from Previous Year	51.0	52.0	48.0	42.0	193.0
Carry over as a % of revenue	12%	12%	11%	9%	12%
Total	**412.0**	**437.0**	**436.0**	**466.0**	**1,751.0**

Data source: OCOB CBIRRs

Table 28: County Revenue Outturn vs. Revenue Potential

County	Actual OSR			Estimated OSR potential	Outturn FY 2022/23 vs Potential as a %
	2020/21	2021/22	2022/23		
Baringo	205	265	313	2,000	16%
Bomet	183	202	242	2,217	11%
Bungoma	395	368	380	1,874	20%
Busia	323	293	202	1,890	11%
Elgeyo/ Marakwet	69	162	217	1,078	20%
Embu	375	395	383	1,466	26%
Garissa	104	66	81	811	10%
Homa Bay	120	147	491	1,857	26%
Isiolo	57	108	152	582	26%
Kajiado	862	528	875	5,401	16%
Kakamega	1,118	1,226	1,310	5,877	22%
Kericho	596	567	501	2,104	24%
Kiambu	2,425	3,149	2,425	11,305	21%
Kilifi	834	828	662	2,691	25%
Kirinyaga	347	365	399	2,310	17%
Kisii	403	405	414	2,191	19%
Kisumu	822	983	731	28,187	3%
Kitui	327	361	464	1,603	29%
Kwale	250	303	393	3,272	12%
Laikipia	840	895	504	1,388	36%
Lamu	108	127	157	431	36%
Machakos	1,296	1,119	1,430	8,838	16%
Makueni	528	749	419	1,393	30%
Mandera	143	133	123	736	17%
Marsabit	110	100	59	566	10%
Meru	436	385	419	3,731	11%
Migori	289	387	406	3,742	11%
Mombasa	3,315	3,609	3,999	6,041	66%
Murang'a	627	520	534	3,726	14%
Nairobi City	9,958	9,239	10,237	67,655	15%
Nakuru	1,629	1,707	1,611	10,966	15%
Nandi	261	276	201	1,411	14%
Narok	619	1,335	3,061	4,100	75%
Nyamira	163	167	113	1,958	6%
Nyandarua	409	473	506	1,549	33%

County	Actual OSR			Estimated OSR potential	Outturn FY 2022/23 vs Potential as a %
	2020/21	2021/22	2022/23		
Nyeri	887	948	611	4,302	14%
Samburu	70	120	227	712	32%
Siaya	333	434	402	1,204	33%
Taita/ Taveta	302	316	265	1,187	22%
Tana River	83	72	59	336	18%
Tharaka Nithi	255	234	164	758	22%
Trans Nzoia	341	380	268	1,997	13%
Turkana	210	204	178	1,208	15%
Uasin Gishu	1,106	858	937	2,775	34%
Vihiga	169	236	108	1,662	7%
Wajir	74	52	47	633	7%
West Pokot	69	113	128	1,841	7%
Total	**34,444**	**35,908**	**37,809**	**215,562**	**18%**

Data Source: OCOB CBIRR, Commission on Revenue Allocation (CRA)

4.2.2 Transfers from the National Government for the FY 2024/25

The National Treasury in the 2024 Budget Policy Statement (BPS) has increased the equitable share marginally from Ksh 385.4 billion in FY 2023/24 to Ksh 391.1 billion in FY 2024/25. Consequently, the share of budget allocated to counties declined from 9.7 percent in FY 2023/24 to 9.4 percent in FY 2024/25. To justify this, the National Treasury cites fiscal consolidation, the fact that historically the national government has borne any shortfall in revenue, increased debt service costs, and low ordinary revenue collections. Moreover, counties' allocation is 25 percent of actual revenues raised nationally in the FY 2019/20, and therefore meets the constitutional threshold of 15 percent.[i]

Nevertheless, counties seem to be bearing a higher cost of fiscal consolidation and debt service than national government. Whereas the national government's share of total budget allocation declined from 61.9 percent to 60.6 percent, its spending increased by a higher margin of 2 percent compared to a 1.5 percent increase in county's allocation.

In addition to the equitable share, counties are set to receive Ksh 54.7 billion additional allocations (conditional and unconditional) out of which Ksh 19.1 billion will come from national government's share of revenue, and Ksh 35.7 billion from loans and grants from development partners (Table 29). This brings total transfers to counties to Ksh 445.8 billion in FY 2024/25, an increase of 5 percent from previous year's total transfers.

Arising from the above observed trends and gaps, we raise the following questions for consideration:

Are counties setting realistic revenue targets?

In assessing county revenue performance, we must assess whether revenue targets are reasonable. We should look at current year's target against previous year's target, current year's target versus actual performance in the previous year, and the actual revenue collected against the potential. Table 30 presents data for the 5 top counties and bottom 5 counties ranked by their performance against target for the FY 2022/23. While some counties reported above target performance, this should not be judged a success. Lamu reported the highest revenue overperformance at 120 percent of target; however, the FY 2022/23 target of Ksh 131 million was only Ksh 4 million above the previous FY's target. Kirinyaga County's revenue target for the FY 2022/23 was lower than the actual performance in the FY 2021/22. Kitui County on its part halved its revenue target in FY 2022/23 from its target for FY 2021/22.

Table 29: Total Revenue Allocation to Counties by Source

Revenue Stream	Amount
Equitable Share	Ksh391,117
Additional allocation	
o/w a) Gok Funded	Ksh19,060
Proceeds from Court fines	Ksh 7.4 million
20% share of mineral royalties	Ksh 1.055 billion
Construction County Headquarters	Ksh 445 million
County Aggregation and Industrial Parks (CAIP)	Ksh 4.5 billion
Road Maintenance Fuel Levy (RMFL)	Ksh 10.5 billion
Conditional Allocation for the Community Health Promoters (CHPs) Programme	Ksh 2.5 billion
Transferred Function of Museums	Ksh 30.2 million
b) Conditional allocations financed from proceeds of loans and grants by Development Partners	Ksh 35.7 billion
Total	**Ksh 445, 835**

Data Source: 2024 Budget Policy Statement (BPS)

The actual revenue collection was below potential for the three counties.

The Controller of Budget in the first half CBIRR for FY 2023/24 points to a somewhat improved performance in revenue collection. Total OSR collections increased from Ksh 13 billion collected in the first half of FY 2022/23 to Ksh 20 billion in similar period in FY 2023/24, translating to a growth of 25 percent. Nonetheless, this performance was only a quarter of the annual target of Ksh 80.2 billion which may be indicative of a possibility of missed OSR target for FY 2023/24. Persistently missed revenue targets could mean counties lack capacity in setting realistic revenue targets, or it may be that counties are using unrealistic OSR targets deliberately to attain a balanced budget.

Table 30: Revenue performance for selected counties

	OSR Target		OSR Outturn		Outturn % of Target		Estimated OSR potential	Outturn FY 2022/23 vs Potential (%)
	2021/22	2022/23	2021/22	2022/23	2021/22	2022/23		
Lamu	120	131	127	157	106%	120%	431	36%
Kirinyaga	485	356	365	399	75%	112%	2,310	17%
Kitui	800	420	361	464	45%	111%	1,603	29%
Samburu	157	240	120	227	76%	94%	712	32%
Turkana	180	198	204	178	114%	90%	1,208	15%
Wajir	100	100	52	47	52%	47%	633	7%
Murang'a	1580	1266	520	534	33%	42%	3,726	14%
Mandera	200	290	133	123	66%	42%	736	17%
Marsabit	170	170	100	59	59%	34%	566	10%
Nyamira	295	432	167	113	56%	26%	1,958	6%

Data Source: OCOB, CRA

Can counties benchmark from other counties to improve their revenue performance?

Lessons from other counties revenue administration can be helpful to counties that are struggling to collect more revenue. Some counties have reaped benefits from automating revenue collection. The case of Homabay County is a useful case study for counties struggling to grow their revenues. The county's revenues increased from Ksh 246 million collected in first half of FY 2022/23 to Ksh 566 million in first half of FY 2023/24, representing a growth of 130 percent. Homa Bay County attributes this stellar performance to adoption of cashless revenue collection (Homa Bay Revenue Collection App), increased human resources to the revenue function, and an enhanced revenue collection framework. Administratively, the county leadership established a revenue board and created a taskforce on revenue administration to support revenue mapping.[ii]

Why have national government agencies mandated with building the capacity of counties in revenue administration failed to carry out their mandate?

Every year, the National Treasury has reported in the Budget Policy Statements that it will build the capacity of counties in revenue collection, yet counties still struggle to raise revenues. In addition, apart from a mention in BPSs, there is no government report that has detailed capacity strengthening initiatives implemented in the counties. The 2024 BPS refers to the National Policy to Support Enhancement of County Governments Own Source Revenue developed in 2019, but since then there has not been any report monitoring implementation of the recommendations as provided in this policy document. For instance, the policy had proposed development of a model Tariffs and Pricing Policy that counties would then domesticate to guide imposition of fees, levies, and charges. The County Governments Act, 2012 in section 120 requires counties to develop Tariffs and Pricing Policy to ensure setting of fees and charges in objective.

In addition, some key policy and legislation proposals are still pending and are at different stages of development. For example, the County Revenue Raising Process Bill and the National Rating Bill have been delayed. This slow progress is attributed to failure by institutions and departments such as the Commission on Revenue Allocation and the Intergovernmental and Fiscal Relations Department (IGFRD) of the National Treasury in ensuring that county matters are delt with expeditiously at the national level. The delay in the passing of the National Rating Bill by the Senate for example has meant that counties have not been able to update their policies and approaches to property valuation for purposes of collecting land rates. It is also unfortunate that the National Treasury is only now working on a training module on revenue forecasting, more than 10 years since the onset of devolution. However, it is a step in the right direction, and we commend the National Treasury for this initiative.

4.2.3 Recommendations on Enhancing OSR

The following are our recommendations to address revenue gaps in counties:

i. County governments with support from the national government should develop revenue management systems to support revenue administration and enforcement. The National Policy to Support Enhancement of County Governments Own Source Revenue recommended various option to counties based on their respective realities; i) internal revenue administration, ii) autonomous revenue authority, iii) contracting Kenya Revenue Authority (KRA), iv) contracting private firms of other agents. Whichever option a county chooses, a fundamental component is having a good revenue management and collection system.
ii. Counties should automate their revenue functions. Some counties have fully automated collection systems (such as Murang'a County), others have partially automated their systems (such as Nakuru County). Murang'a County's case of automation stands out because the county developed an in-house revenue system which avoids the challenge of transferring the system from the vendor to the county, which has been a challenge in other counties.
iii. The National Treasury, Senate, and the National Assembly should expedite enactment of key policies and bills including the Tariffs and Pricing Policy, the Valuation for Rating Act and the Rating Act to guide setting of levies, fees, and charges and valuation of properties for purposes of administration of land rates.

iv. Counties should establish a policy and legal framework to guide revenue administration. On legislation, most counties do not have acts to guide administration of specific revenues streams, which means they do not have a legal basis for administering revenue streams. Therefore, we recommend counties to work on enacting legislation to guide imposition of levies, fees and charges. Benchmarking with a county like Nairobi that has a specific act for most of its revenue streams can expedite such a process.

v. CRA and the National Treasury should cooperate to build county's revenue administrative capacity.

4.3 Counties' Expenditure Performance

The average absorption rates of county government budgets improved slightly in FY 2022/2023 from 51 percent to 61 percent and from 88 percent to 93 percent for the development budget and recurrent budgets, respectively. The improvement continued in the first half of FY 2023/2024, where the county governments had spent 12.2 percent of their annual development budgets compared to a similar period in FY 2022/2023 when the absorption rate was at 6.9 percent.

Only 6 counties attained an absorption rate of 80 percent and above in development expenditure: West Pokot, Mandera, Samburu, Kericho, Nandi and Homabay. Five counties had an absorption rate of 50 percent and below: Kisii, Kiambu, Nakuru, Busia and Machakos. This points to the persistent challenge of below target expenditures on development, which has been attributed to intermittent release of funds from the County Revenue Fund Account.

The Public Finance Management Act requires all monies raised or received by or on behalf of the county governments to be remitted to the County Revenue Fund Account. The Controller of Budget then approves the withdrawal of these funds. Studies have shown the release of funds varies in different quarters with most of the cash flow happening in the third and fourth quarter. In most counties this has posed a challenge especially in spending the development budget. When funds are released so close towards the end of the financial year, counties do not have enough time to implement development programmes. Counties end up remitting balances into the County Revenue Fund Account for use in the next financial year. In the FY 2022/2023, counties received a total of 94.4 billion in June 2023 which represented 23.6 percent of total equitable share. This was one month towards the end of the financial year. Counties heavily rely on the equitable share hence disbursement of these funds on time is key in ensuring effective service delivery.

Table 31: Total counties' budget estimates, expenditures, and absorption rates

Financial Year	Allocation (Ksh Billion)			Expenditure (Ksh Billion)			Absorption rate (%)		
	Rec	Dev	Total	Rec	Dev	Total	Rec	Dev	Total
2018/2019	297.7	185.8	483.5	269.0	107.4	483.5	90	58	78
2019/2020	311.6	188.0	499.6	279.3	104.5	383.8	90	56	77
2020/2021	314.9	186.9	501.7	281.9	116.1	398.0	90	62	79
2021/2022	342.2	193.5	535.7	302.5	98.5	401.0	88	51	75
2022/2023	354.6	160.5	515.2	330.9	98.0	428.9	93	61	83
Total	**1,621.1**	**914.7**	**2,535.7**	**1,463.6**	**524.5**	**2,095.1**	**90**	**57.6**	**78.4**

Data Source: Office of the Controller of Budget, CBIRRs

Are counties complying with the stipulated 70:30 (recurrent to development) ratio rule in their budget allocations and expenditures?

In FY 2022/ 2023, 16 counties allocated more than 70 percent of their resources to recurrent expenditures. Eight counties did not adhere to the PFM requirements of allocating at least 30 percent of resources towards development: Bomet, Meru, Nandi, Wajir, Kiambu, Laikipia, Nairobi and Tharaka Nithi and only seven counties met this requirement as far as actual expenditure is concerned: Marsabit, Baringo, Uasin Gishu, Mandera, Kwale, Kilifi and West Pokot. Most counties conform to the requirement when allocating the budget, but not in their actual expenditures.

Table 32: County Absorption Rates FY 2022/23

County	Budget Estimates			Actual Expenditure			Absorption rate		
	Rec	Dev	Total	Rec	Dev	Total	Rec	Dev	Total
Baringo	5.4	3.9	9.3	5.4	2.4	7.8	100%	63%	84%
Bomet	5.8	2.4	8.3	5.5	1.5	7.1	95%	63%	85%
Bungoma	10.4	4.4	14.8	9.3	2.7	12.0	89%	61%	81%
Busia	6.5	3.0	9.6	6.2	1.3	7.5	95%	41%	78%
Elgeyo Marakwet	4.0	2.3	6.3	3.8	1.4	5.2	94%	61%	82%
Embu	5.1	2.2	7.3	4.9	1.2	6.1	96%	56%	84%
Garissa	6.6	2.8	9.4	6.2	1.6	7.8	94%	57%	83%
Homa Bay	7.0	3.1	10.1	6.9	2.5	9.4	99%	80%	93%
Isiolo	4.4	2.1	6.5	4.0	1.5	5.5	92%	70%	85%
Kajiado	7.5	3.2	10.7	7.1	2.4	9.5	95%	76%	89%
Kakamega	11.3	4.9	16.2	10.5	3.7	14.1	92%	75%	87%
Kericho	5.8	2.6	8.5	5.4	2.2	7.6	93%	83%	90%
Kiambu	13.1	4.6	17.7	10.7	1.2	11.9	81%	26%	67%
Kilifi	9.9	5.4	15.4	7.8	3.4	11.2	79%	62%	73%
Kirinyaga	4.8	2.2	7.0	4.8	1.6	6.4	100%	74%	92%
Kisii	7.8	3.3	11.1	7.5	0.5	8.0	96%	14%	72%
Kisumu	8.5	3.6	12.0	7.3	1.8	9.1	86%	51%	75%
Kitui	8.7	3.6	12.3	8.2	2.1	10.3	94%	58%	84%
Kwale	7.1	4.9	11.9	6.8	3.0	9.7	96%	61%	81%
Laikipia	5.4	1.8	7.2	5.3	1.2	6.5	99%	67%	91%
Lamu	3.0	1.4	4.4	2.7	0.8	3.5	92%	56%	80%
Machakos	8.8	3.8	12.5	7.9	1.6	9.5	90%	42%	76%
Makueni	7.5	3.3	10.8	7.3	2.5	9.8	98%	77%	91%
Mandera	8.4	4.3	12.7	8.2	3.7	11.9	97%	85%	93%
Marsabit	5.0	3.8	8.8	4.9	2.7	7.6	98%	71%	86%
Meru	8.9	3.7	12.6	8.8	2.6	11.5	99%	71%	91%
Migori	7.3	3.1	10.4	6.8	1.7	8.5	94%	54%	82%
Mombasa	9.9	4.1	14.0	10.4	2.2	12.5	105%	53%	90%
Murang'a	6.9	2.9	9.8	6.4	2.0	8.5	94%	69%	86%
Nairobi City	30.4	9.2	39.6	28.6	4.6	33.2	94%	50%	84%
Nakuru	12.9	8.3	21.2	10.5	3.0	13.5	82%	36%	64%

County	Budget Estimates			Actual Expenditure			Absorption rate		
	Rec	Dev	Total	Rec	Dev	Total	Rec	Dev	Total
Nandi	6.1	2.4	8.5	6.0	2.0	7.9	97%	82%	93%
Narok	10.2	4.8	15.0	9.7	3.1	12.8	95%	65%	85%
Nyamira	4.9	2.2	7.1	4.3	1.4	5.7	88%	64%	81%
Nyandarua	5.3	2.3	7.6	5.0	1.7	6.7	94%	74%	88%
Nyeri	5.3	2.3	7.6	5.1	1.7	6.8	96%	75%	90%
Samburu	4.8	2.2	7.0	4.5	1.8	6.3	94%	84%	91%
Siaya	5.8	2.8	8.6	5.3	1.5	6.8	91%	54%	79%
Taita Taveta	5.0	2.2	7.2	4.9	1.3	6.1	98%	57%	85%
Tana River	5.5	2.5	8.0	4.6	1.3	5.9	85%	51%	74%
Tharaka Nithi	4.4	1.3	5.7	4.1	0.9	5.0	94%	69%	88%
Trans Nzoia	5.8	3.3	9.1	5.5	2.1	7.6	94%	65%	83%
Turkana	12.5	5.9	18.4	11.2	3.3	14.5	89%	56%	79%
Uasin Gishu	7.3	4.5	11.8	7.2	3.2	10.4	98%	71%	88%
Vihiga	4.6	1.9	6.5	4.5	1.5	5.9	98%	76%	92%
Wajir	8.1	3.1	11.2	7.8	2.4	10.2	97%	76%	91%
West Pokot	5.2	2.5	7.7	5.1	2.2	7.3	98%	89%	95%
Total	**354.6**	**160.5**	**515.2**	**330.9**	**98.0**	**428.9**	**93%**	**61%**	**83%**

Data source: OCOB, CBIRRs

Nairobi City County has been allocating less than 30 percent of their budgets towards development in the past five fiscal years. In the FY 2022/2023, the revised development budget allocation was 23.3 percent and recurrent budget allocation was 76.7 percent. The high wage bill contributed to the high recurrent expenditures incurred. The county should therefore follow through with the measures in place to reduce the wage bill. This will ensure there are enough funds available for development.

4.3.1 County Expenditure on Personnel Emoluments

Over the period 2018/2019- 2022/2023 counties have spent an average of 42.8 percent of their total revenues on employee compensation. The PFM Act requires counties to spend a maximum of 35 percent of their total revenues on employee compensation. In FY 2022/2023, only five counties remained within the 35 percent threshold: Tana River (24.5 percent), Turkana (24.7 percent), Kwale (30.5 percent) Mandera (31.8percent), and Samburu (31.8 percent). Laikipia, Mombasa, Tharaka Nithi and Garissa spent 54.6 percent, 53.3 percent, 52.6 percent, and 51.2 percent of their revenues on employee compensation respectively. These expenditure levels on personnel emoluments are way above the prescribed threshold. While we recognize that counties inherited a bloated wage bill from the defunct local authorities, they ought to work progressively towards ensuring expenditure on personnel emoluments remains within the PFM requirements. In addition, the Office of the Controller of Budget in its reports has continuously flagged use of manual payrolls by counties. For instance, Laikipia processes 10 percent of personnel emoluments (which is way above 0.42 percent average for all counties) through manual payrolls which are subject to misappropriations of funds where there are no proper controls.

What do counties spend on?

Resources available for spending by the counties is determined by functions of the county as stipulated in Fourth Schedule of the Kenya Constitution 2010. Counties have allocated resources to various functions, such as public services, which account for an average of 35 percent of the total county budgets, while the health function accounts for an average of 24 percent of total county budgets. These functions are heavily devolved. Agriculture, which falls under economic affairs functions, also accounts for a significant share of county budgets, at 19 percent. These budget shares are reflective of the level of devolution across different functions. Less devolved functions such as education and social protection account for lower budget shares (Table 33). The education sector is not expected to take up big shares as counties are only responsible for pre- primary education, village polytechnic, homecraft centers and childcare facilities. As discussed in the next section, delineation of government functions between county government and the national government remains incomplete, where in some cases counties have allocated funds to national government functions. Therefore, as IGRTC works on complete delineation of functions, counties should be keen to ensure they do not spend on national government function at the expense of county functions.

What are the possible implications of the changes in the Facility Improvement Fund?

One of the key legislative changes that will impact the implementation of the FY 2024/2025 budget is the Facility Improvement Fund (FIF)Act, 2023 that was enacted to facilitate attainment of Universal Health Coverage (UHC). One of the initiatives under the Act is that FIF monies collected by or on behalf of the public health facilities shall be retained for use by the public health facilities. The fund will comprise of user fees and monies paid as reimbursement for services received from Social Health insurance Fund (SHIF), equitable share, conditional grants, and donations. Public health facilities shall open an account in which the FIF monies shall be deposited. Initially, FIF were comprised of user fees and charges which were collected at the health facilities and remitted to the County Revenue Fund Account like any other source of revenue. What do these changes mean for the counties that heavily rely on FIF?

While this could be a good initiative to ensure that money collected at the public health facilities is used for the intended purpose, delayed reimbursements might delay progress. A big part of the user fees that were initially being collected from patients, will now be in form of reimbursements from the Social Health Insurance Fund. In the case of the primary health facilities, they will be making claims with the Claims Management Office for payment of any service the facility provided.

Unfortunately, the national government does not have a good track record in making reimbursements. With SHIF's predecessor, National Health Insurance Fund (NHIF), health facilities experienced challenges in delayed reimbursements and unpredictability in terms of amount reimbursed. There were cases

Table 33: County Expenditure by Function

	2017/18	2018/19	2019/20	2020/2021*	2021/2022*	2022/2023**	Average
General Public Services	39%	33%	33%	33%	38%	36%	35%
Economic Affairs	17%	22%	20%	18%	17%	18%	19%
Environmental Protection	3%	4%	3%	3%	3%	4%	3%
Housing and amenities	7%	9%	9%	10%	9%	10%	9%
Health	25%	23%	26%	26%	24%	23%	24%
Recreation, Culture and Religion	1%	1%	2%	2%	2%	2%	2%
Education	7%	8%	7%	8%	7%	7%	7%
Social Protection	0%	1%	0%	0%	0%	1%	0%
Total							**100%**

Data Source: 2023 Economic Survey

of discrepancies between the approved claims and payments received. The implementation of Linda Mama Programme by the National Health Insurance Fund, whose aim was to allow mothers access free maternity services, did not fully attain its objectives due to delayed reimbursements to health facilities. An audit report by the Auditor General revealed a health facility experienced a delay of up to 1,028 days which was against the Memorandum of Understanding that required NHIF to make reimbursements within 30 days, upon receipt of invoice. As at November 2022, NHIF owed a total of 721.2 million to health facilities. If the late reimbursements trend to the health facilities continues, the new reforms will not have a positive impact on service delivery as intended.

The finances to be retained by public health facilities are meant to supplement the resources appropriated to the public health facilities by the responsible arm of the government. To what extent will the counties be able to fund public health care? Spending trends on the health sector gives some indication of additional resources that counties will have to appropriate in addition to revenues raised through health fees and charges.

In the FY 2023/24, counties had a target of 15,540.7 million on Facility Improvement Fund collection. On average, this represents 12.3 percent of the total health budget for the period. However, some counties have much more reliance on FIF, up to 60 percent (Table 34). This indicates that county funding from non-FIF sources will differ substantially across counties. As county governments plan and budget for their health sectors, these are some of the factors they will need to consider. Some counties like Kisii, Kitui, Kwale, Lamu, Mombasa, Narok, Nyeri and Turkana did not provide information of FIF targets for the year. Going forward, providing this information would be crucial as it would inform the extent to which counties will be able to fund their health budgets with the FIF retained at the public health facilities and for transparency on spending at health facilities.

4.3.2 Recommendations To Improve Budget Execution

To improve budget execution, we make the following recommendations:

i. As counties implement their budgets, they need to prioritize implementation of development expenditure as it plays an important role in effective service delivery.
ii. Counties are encouraged to make all payments through the Integrated Personnel and Payroll Database (IPPD) system as opposed to the manual payrolls which are prone to manipulation.
iii. Counties should follow through with their internal revenue strategies to enable them to raise more revenues from other potential streams. This will ensure the other sectors/departments are still funded and do not face cash flow problems. Support from the National Treasury (as stated in the BPS 2024) will also enable counties to fully attain their OSR potential.
iv. To ensure the new reforms in the health sector are effective, the national government needs to ensure that the health facilities receive the reimbursements in time to allow for smooth operations.

Table 34:County FIF collections in comparison to the health budgets FY 2023/2024

	2017/18	2018/19	2019/20
HomaBay	1,880.0	3,136.7	60
Laikipia	624.6	1,092.0	57
Nyandarua	348.5	669.4	52
Taita Taveta	176.7	513.2	34
Meru	316.0	1,006.1	31
Embu	720.0	2,339.3	31
Tharaka Nithi	122.8	411.6	30
Kiambu	1,958.3	6,832.8	29
Bungoma	1,124.7	3,928.2	29
Nakuru	1,700.0	6,924.6	25
Kericho	743.4	3,036.3	24
Kakamega	318.3	1,479.3	22
Machakos	1,008.0	5,057.0	20
Kisumu	600.0	3,617.2	17
Baringo	149.4	991.6	15
Makueni	510.0	3,591.7	14
Trans Nzoia	301.7	2,278.6	13
Nyamira	230.0	1,867.4	12
Kajiado	315.7	2,809.0	11
Migori	250.5	2,332.4	11
Kilifi	200.0	2,100.2	10
Siaya	214.8	2,794.8	8
Bomet	144.5	2,014.0	7
Busia	152.2	2,141.2	7
West Pokot	132.8	1,911.1	7
Elgeyo Marakwet	150.0	2,189.6	7
Murang'a	238.8	3,650.1	7
Marsabit	118.7	2,062.4	6
Nandi	155.2	2,904.4	5
Nairobi City	270.0	8,200.3	3
Vihiga	52.5	1,605.9	3
Garissa	91.0	2,894.5	3
Uasin Gishu	70.8	2,506.3	3
Mandera	51.8	2,427.8	2
Kirinyaga	44.9	2,721.8	2
Samburu	17.0	1,633.6	1

Wajir	30.0	3,251.4	0.9
Tana River	4.0	1,440.0	0.3
Isiolo	3.6	1,509.2	0.2
Kisii	-	4,136.6	-
Kitui	-	3,619.0	-
Kwale	-	2,920.3	-
Lamu	-	1,360.9	-
Mombasa	-	3,528.0	-
Narok	-	3,294.4	-
Nyeri	-	2,808.5	-
Turkana	-	1,287.7	-
Total	**15,540.7**	**126,828.0**	**12.3**

Data Source: Office of the Controller of Budget, CBRIRRs

4.4 Transfer of Functions

More than a decade after devolution, county governments are still lamenting that their constitutional functions (and their respective funding) have remained at the national level. The Intergovernmental Relations Technical Committee (IGRTC) highlights various challenges including overlapping functions and discrepancies in funding allocation. Efforts to address these issues include delineating functions in key sectors and establishing Multi-Agency Technical Task Teams (MATTs) to facilitate transfer of functions. Progress has been slow, with some aspects of functions like agriculture, transport, education, tourism, wildlife, and water still pending transfer.

IGRTC concluded transfer of library service function earlier this year that saw 61 libraries' assets, staff, and files transferred to county governments. Within FY 2023/24 the National Treasury transferred Ksh 425 million to counties to fund the library function. An interim report by the IGRTC estimated that county functions being performed by Ministries, Departments, and Agencies are worth Ksh 272 billion.[iii] Sectors with a significant number of devolved functions that are yet to be transferred include agriculture, transport, education, tourism and wildlife and water.

One of the contentious functions has been the water function. The Fourth Schedule of the Constitution of Kenya delineates county public works (among them water and sanitation services) as a county function. The Transition Authority (TA) vide gazette notice delineated specific county roles under the water function (Figure 5). Counties are expected to plan, mobilize, and implement county public works related to water and sanitation services. The IGRTC is of the opinion that even with this unbundling, the national government and county governments' roles are not clear cut, with a specific concern on the operations of Regional Development Authorities being a violation of the constitution.[iv] The Presidential Taskforce on Parastatal Reforms reported 18 state corporations most of which were water works agencies were performing county functions.[v]

The Water Act, 2016 on its part assigns development of major water infrastructure to the national government Water Works Development Agencies and last mile connectivity to water service to county governments through water service providers. National government's decision to designate some Water Works Development Agencies as bulk water suppliers vide Legal Notice No. 102- Kenya Gazette Supplement No. 43[vii] is a clear demonstration that these agencies are taking up county functions.

For unbundled functions, their costing is a prerequisite for their transfer. Our analysis of the Office of Auditor General's reports shows that 18 state corporations (that Presidential Taskforce on Parastatal Reforms indicated were performing county functions) spent Ksh 30 billion in FY 2021/22. Whereas we cannot assume that all of these funds rightfully belong to counties, there is an urgent need for clarity on the county functions to facilitate their transfer.

Figure 5: Water functions belonging to counties

Function as listed in Part 2 of the Fourth Schedule	Perfomed by the county governments through
1. Implementation of specific National Government policies on natural resources and environmental conservation, including soil and water conservation	(a) implementation of specific national government policy related to water conservation; and (b) monitoring and reporting on implementation of specific policies related to natural resources and environment conservation in accordance with national Monitoring & Evaluation framework.
2. County public works and services, including:- (a) storm water management systems in built-up areas; and (b) water and sanitation services	(a) development of county policy on water services in accordance with National Water Policy and National Water Services Strategy; (c) development of county legislation on water services in accordance with the national policies, norms and standards; (d) implementation of policy and legislation (both National and County) related to water and sanitation services; (e) appointment and monitoring of Water Service Providers (WSPs) in line with national guidelines; (f) enforcement of legislation, regulations and standards (both at National and County level) related to water and sanitation services; (g) planning for county public works related to water services and sanitation to meet demand; (h) mobilization of resources for county public works related to water and sanitation services; (i) implementation of county public works related to water and sanitation services; implementation of pro-poor interventions in accordance with national guidelines; (k) asset management, maintenance, inventory and valuation of county public works related to water and sanitation; (1) rapid assessment of projects, initial feasibility and packaging of ready projects.

Data Source: Gazette No. 2238 of 1st April 2016 [vi]

4.4.1 Recommendation To Enhance Transfer of Functions

IGRTC should expedite costing of functions that remain with the national government to pave for their transfer and their funding to county governments. Nonetheless, it will take great commitment from the Presidency to ensure that functions that belong to county governments are transferred and their funding disbursed to counties.

Conclusion

The Institute of Public Finance (IPF) has critically analyzed the proposed ceilings in the 2024 BPS as a guide for FY 2024/25 budget, budget execution and key performance indicators performance over FY 2022/23 with a goal to establish if the allocations reflect government priorities and policy commitments, flag gaps in budgeting and planning, and present areas that could be streamlined to free resources. If adopted, this will create a fiscal space to safeguard key programs from being adversely affected by fiscal consolidation. It further enhances public finance management principles in the budget process and give a reference for informed engagement with policy-makers, especially on the delivery of the Bottom-Up Economic Transformation Agenda (BETA).

The analysis employed in this version of the Shadow Budget projects gaps such as discrepancies between sector reports and budget allocations, low development budget absorption, pending bills with no allocations, overlaps, redundancies, and duplication of functions.

Flagging of these gaps in planning, budgeting, and streamlining of function presents areas that need a swift and deliberate action because sealing such gaps can free resources that could be re-allocated to other priority spending. For instance, the Curative and Reproductive Maternal Neonatal Child & Adolescent Health (RMNCAH) program under State Department for Medical Services (SDMS) significantly overlaps with the Preventive and Promotive Health Service program under State Department for Public Health and Professional Standards (SDPHPS). Both programs include subprograms like Communicable Disease Control, and many RMNCAH activities inherently fall under preventive care. The Teachers Service Commission (TSC) administers a governance and standards programme, duplicating efforts already undertaken by the quality assurance and standards division within the state department for Basic Education. Duplication of functions under the National Lands Commission and the State Department for Lands among others.

Moreover, this version of the Shadow Budget highlights how allocations for FY 2024/25 fail to mirror government commitments and policies. Examples include a decline in budgetary allocation to Social Protection Culture and Recreation (SPCR), Education, General Economic and Commercial Affairs (GECA) and Agriculture, Rural and Urban Development sector despite the government highlighting MSMEs, agriculture, digital literacy learning and social protection as priorities.

Furthermore, matters devolution are extensively covered through a fiscal lens. Specifically, this edition illuminates fiscal performance of County Governments and gives recommendations on transfer of functions with a goal to inform how devolution can be strengthened.

Last but not least, implementation of this budget hinges more on whether historical trend in revenue targets under-performance will be reverted by enhancing revenue streams through the implementation of the Medium-Term Revenue Strategy (MTRS) and the National Tax Policy (NTP). Revenue growth can also be enhanced by having a targeted plan to combat challenges beleaguering the private sector, including tight monetary policies and delayed payments to government suppliers.

End Notes

i. The National Treasury and Planning. Budget Policy Statement. Link.
ii. Homa Bay County. Revenue Mobilization. Link.
iii. Parliament of Kenya. Ksh 272.2 billion meant for devolved functions still held by the National Government, says IGRTC. Link.
iv. IGRTC (2017). Emerging issues transfer of functions to national and county governments. Link.
v. Report of The Presidential Taskforce on Parastatal Reforms. Link.
vi. Gazette No. 2238 of 1st April 2016. Clarification of Functions as Exercised by the National and County Government in Accordance with the Fourth Schedule of the Constitution. Link.
vii. Legal notice No. 102 – Kenya Gazette Supplement No. 43 dated July 21, 2023. Link.

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